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Supreme Court, U.S.
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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

POMINI FARREL S.p.A. and POMINI, INC.,
Petitioners,

v.

FARREL CORPORATION and
UNITED STATES INTERNATIONAL TRADE COMMISSION

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Federal Arbitration Act, the Convention on the Recognition and Enforcement of Foreign Arbitral Awards and a bilateral treaty between the United States and Italy require the recognition and enforcement of a valid arbitration clause in an agreement embodying an international commercial transaction?

2. Whether the United States International Trade Commission has authority to terminate its proceedings under Section 337 of the Tariff Act of 1930, as amended, in order to enforce the parties' agreement to arbitrate, where the ITC determines that the public interest favors arbitration?

PARTIES TO THE PROCEEDING

All parties to the proceeding are identified in the caption. Pursuant to Supreme Court Rule 29.1, petitioners state that the parent of Pomini Farrel S.p.A. is Techint, S.p.A.

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Petition for a Writ of Certiorari to
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PETITION FOR A WRIT OF CERTIORARI

Petitioners Pomini Farrel S.p.A. and Pomini, Inc.,[1] petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

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[1] For purposes of clarity, Pomini Farrel S.p.A. will be referred to as "Pomini (Italy)," and Pomini, Inc. will be referred to as "Pomini (U.S.)." Collectively, petitioners will be referred to as "Pomini."

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, A1-A23) is reported at 949 F.2d 1147. The opinion of the United States International Trade Commission (App., *infra*, A24-A60) is reported at USITC Pub. 2414 (Aug. 1991). The opinion of the district court in a companion case (App., *infra*, A61-A104) is not reported.

JURISDICTION

The judgment of the court of appeals was entered on Nov. 22, 1991. App., *infra*, A109. The petition for rehearing was denied on January 23, 1992. App., *infra*, A105-A106. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTES AND TREATIES INVOLVED

Section 2 of the Federal Arbitration Act, 9 U.S.C. § 2, provides:

> A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

Section 202 of the Federal Arbitration Act, 9 U.S.C. § 202, provides in pertinent part:

> An arbitration agreement or arbitral award arising out of a legal relationship, whether contractual or not, which is considered as commercial, including a transaction, contract, or agreement described in section 2 of this title, falls under the Convention [on the Recognition and Enforcement of Foreign Arbitral Awards].

Article II(1) of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 21 U.S.T. 2517, T.I.A.S. No. 6997 (1970), which the United States acceded to in 1970, provides:

> Each Contracting State shall recognize an agreement in writing under which the parties undertake to submit to arbitration all or any differences which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not, concerning a subject matter capable of settlement by arbitration.

Article VI of the Agreement Supplementing the Treaty of Friendship, Commerce and Navigation Between the United States of America and the Italian Republic, 12 U.S.T. 131, T.I.A.S. No. 4685 (1951), provides:

> The clauses of contracts entered into between nationals, corporations and associations of either High Contracting Party, and nationals, corporations and associations of the other High Contracting Party, that provide for the settlement by arbitration of controversies, shall not be deemed unenforceable within the territories of the other High Contracting Party merely on the grounds that the place designated for the arbitration proceedings is outside such territories, or that the nationality of one or more of the arbitrators is not that of such other High Contracting Party.

Subsections (a)(1), (2) and (c) of Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337(a)(1), (2) and (c), provide:

> (a)(1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:
>
> > (A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), and (D)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is--

(i) to destroy or substantially injure an industry in the United States;

(ii) to prevent the establishment of such industry; or

(iii) to restrain or monopolize trade and commerce in the United States.

(B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that--

(i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under Title 17; or

(ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

(C) The importation into the United States, the sale for importation, or

the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

(D) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of a semiconductor chip product in a manner that constitutes infringement of a mask work registered under chapter 9 of Title 17.

(2) Subparagraphs (B), (C), and (D) of paragraph (1) apply only if an industry in the United States, relating to the articles protected by the patent copyright, trademark or mask work concerned, exists or is in the process of being established.

* * *

(c) The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of a settlement agreement, terminate any such investigation, in whole or in part, without making such a determination. Each

> determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of Title 5. All legal and equitable defenses may be presented in all cases. Any person adversely affected by a final determination of the Commission under subsection (d), (e), (f), or (g) of this section may appeal such determination, within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of Title 5. Notwithstanding the foregoing provisions of this subsection Commission determinations under subsections (d), (e), (f), and (g) of this section with respect to its findings on the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of Title 5.

Additional portions of these treaties and statutes are set forth at App., *infra*, A110-A118.

INTRODUCTION AND STATEMENT

This case involves an international commercial transaction in which the parties agreed in writing that "[a]ll disputes . . . shall be finally settled by arbitration"

conducted in Geneva, Switzerland. App., *infra*, A3. The United States International Trade Commission ("ITC") held that it was in the public interest for the present dispute to be resolved, as agreed, in arbitration rather than in ITC adjudicatory proceedings between the parties. *Id.* at A35. The court of appeals, however, held that the ITC was statutorily barred from enforcing the parties' agreement to arbitrate "all disputes." *Id.* at A13-A14.

1. Pomini (Italy) is a corporation organized under the laws of Italy with its principal place of business in Castellanza, Italy. *Id.* at A2. For nearly 30 years, from 1957 to 1986, Pomini (Italy) was a licensee of Farrel Corporation ("Farrel"). *Id.* Pursuant to a series of licensing agreements, Pomini (Italy) used Farrel's technology to manufacture and sell a line of rubber and plastics mixing machines internationally. The most recent such agreement granted Pomini (Italy) the exclusive right to manufacture the equipment in Italy and the non-exclusive right to sell it worldwide. *Id.* at A2-A3. Each of the licensing agreements contained an arbitration clause requiring that "[a]ll disputes arising in connection with the present Agreement shall be finally settled by arbitration . . . conducted in Geneva, Switzerland, in accordance with the rules of Arbitration of the International Chamber of Commerce." *Id.* at A3. The licensing agreements expired on January 1, 1986. *Id.* Pomini subsequently made sales into the United States of equipment that, Farrel alleged, infringed certain patent and trademark rights. *Id.* at A4.

2. In derogation of its contractual agreement to arbitrate all such disputes, Farrel embarked on a worldwide campaign of litigation. *Id.* It filed suit in Italy, alleging misappropriation of trade secrets and infringement of Italian patent and trademark rights. *Id.*

Farrel also filed suit in Scotland, alleging infringement of U.K. patent and trademark rights. *Id.* And, on June 29, 1988, Farrel filed suit in the United States District Court for the Northern District of Ohio, alleging that Pomini (Italy) and its newly-formed marketing subsidiary, Pomini (U.S.), violated certain patent and trademark rights. *Id.* at A4-A5.

In response to all three actions, Pomini asserted that the parties' binding arbitration agreement required that all disputes be resolved in arbitration in Geneva under the Rules of the International Chamber of Commerce. *Id.* at A5. The United States District Court agreed, granted Pomini's motion to stay proceedings and compel arbitration, and dismissed Farrel's case. *Id.* at A61-A104. Farrel filed and subsequently withdrew its notice of appeal from that decision (*see Id.* at A5).[2]

3. On July 24, 1990, in further derogation of its agreement to arbitrate and in an effort to preclude importation into the United States of Pomini's rubber and plastic mixing machines, Farrel filed a complaint against Pomini with the ITC pursuant to Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337. App., *infra*, A27. Farrel's complaint alleged that Pomini misappropriated trade secrets, infringed United States trademarks and falsely represented the source of goods; the complaint sought adjudication of those private claims before the ITC. *Id.* Once again, Pomini immediately asserted that the arbitration clause provided the sole forum for resolving all disputes and, therefore, that the ITC should not commence Section 337 proceedings. *Id.*

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[2] Farrel also dismissed the Scottish action. The matter is still pending in the Italian court. App., *infra*, A4 & n.1.

The ITC nonetheless instituted proceedings on Farrel's complaint and only thereafter considered the significance of the arbitration provision. *Id.* at A27-A29.

On November 2, 1990, the ITC affirmed the summary determination of an administrative law judge (ALJ) and terminated its proceedings.[3] The ITC held that the policies and standards articulated by this Court in *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985), compelled enforcement of the arbitration agreement. App., *infra*, A33-A35. The ITC also found that this result was supported by its consideration of the public interest, including the strong public policy favoring arbitration of international business disputes, "concerns for international comity, respect for the capacities of foreign and transnational tribunals and sensitivity to the need of the international commercial systems for predictability in the resolution of disputes." *Id.* at A34 n.9, A35. The ITC further held that the public interest in Section 337 proceedings would be protected because, in the event Farrel prevailed in the arbitration, it could obtain broader relief in that forum than it could from the ITC. *Id.* at A36-A37. The ITC alternatively held that termination of the proceedings was required because Farrel was collaterally estopped from litigating the arbitrability of its trade secret claim by virtue of the decision of the United States District Court for the Northern District of Ohio, which held that the arbitration agreement is binding. *Id.* at A43-A44. Finally, the ITC

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[3] Farrel's appeal to the ITC was limited to the claim of misappropriation of trade secrets; Farrel did not contest termination of ITC proceedings on its trademark infringement and false representation of source claims. App., *infra*, A7 n.3, A29 & n.3.

rejected Farrel's request to "self-initiate" an investigation. *Id.* at A55.

On February 21, 1991, Farrel filed with the International Chamber of Commerce a request for arbitration of all disputes involved in the ITC proceeding. Following an extensive exchange of briefs and proposed exhibits by the parties, the arbitration hearings are scheduled to commence in Geneva, Switzerland on April 10, 1992.

4. The United States Court of Appeals for the Federal Circuit reversed the decision of the ITC. App., *infra*, A1-A23. The court held that the ITC was statutorily barred from terminating proceedings to give effect to a binding arbitration provision in an international agreement between private parties even where the ITC has determined it is in the public interest to do so. *Id.* at A13-A14. In contrast to the ITC's longstanding construction of a statute it administers, the court held that the ITC had no authority to terminate its Section 337 proceedings to permit the parties to resolve their differences solely through the agreed-upon arbitration. *Id.* In the court's view, Section 337 explicitly prohibits the ITC from terminating a proceeding without determining whether a violation of that statute occurred.[4] In so holding, the court rejected the argument advanced by the ITC and Pomini that the language of Section 337(c) providing that "[a]ll legal and equitable defenses may be

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[4] The court stated that the statute has two exceptions: the ITC may terminate a proceeding without determining the merits in the event of a consent order or a settlement agreement between the parties. The court noted that neither exception applied in this case. App., *infra*, A13.

presented in all cases" authorizes the ITC to terminate proceedings upon the presentation of a defense of binding arbitrability. *Id.* at A14-A16.

Further, the court found that the policies and legal principles set forth in *Mitsubishi* are inapplicable in the context of Section 337. App., *infra*, A18-A20. Instead, the court held that dictum in *Gilmer v. Interstate/Johnson Lane Corp.*, 111 S. Ct. 1647 (1991) -- a case in which this Court upheld an agreement to arbitrate statutory claims under the Age Discrimination in Employment Act -- somehow created an exception to the rule requiring enforcement of arbitration provisions in international commercial transactions. App., *infra*, A21-A22. Based on *Gilmer*, the court held that arbitration is favored over only judicial, but not administrative, proceedings. *Id.* at A22.

The court of appeals remanded with instructions for the ITC to reinstate Farrel's complaint.[5] Following the panel's denial of the petition for rehearing, the full court, by a divided vote, denied Pomini's suggestion for rehearing in banc. App., *infra*, A107-A108. Chief Judge Nies and Circuit Judge Newman dissented from the denial of rehearing in banc. *Id.*

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[5] Because of the statutory requirement that the ITC conclude a proceeding within one year from its commencement (19 U.S.C. § 1337(b)(1)), the renewal of ITC proceedings in this case will overlap the arbitration proceedings being conducted in Geneva and will force the parties to litigate the same claim contemporaneously in two fora rather than the single forum specified in their agreement. Because of statutory requirements and restrictions, the ITC cannot stay its proceedings pending the arbitration. 19 U.S.C. § 1337(b)(1).

REASONS FOR GRANTING THE PETITION

This case raises important questions concerning the application of federal arbitration law to private international trade disputes. In precluding the ITC from enforcing the parties' agreement to arbitrate all disputes, the decision of the court of appeals conflicts with this Court's recognition that arbitration provisions are "an almost indispensable precondition to achievement of the orderliness and predictability essential to any international business transaction." *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 516 (1974). The decision below also defies this Court's determination that a party to an international business transaction must honor its agreement to arbitrate disputes. *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 628 (1985); *Scherk*, 417 U.S. at 519-20 (1974). And the decision below conflicts also with the very provisions of federal arbitration law upon which this Court relied in *Mitsubishi* and *Scherk*, *viz.*, the Federal Arbitration Act, 9 U.S.C. §§ 1, *et seq.* (1988)("FAA"), and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 21 U.S.T. 2517, T.I.A.S. No. 6997 (1970) ("New York Convention").

The decision below, therefore, effectively engrafts onto every arbitration clause governing international commercial transactions an exception for Section 337 proceedings, regardless of the bargain struck by the parties. Even in circumstances where, as here, the parties have contractually selected a single forum, the decision below provides the ITC as an alternative forum for resolution of private international commercial disputes over trademark, patent and antitrust claims involving imports into the United States.

In both *Scherk* and *Mitsubishi*, this Court exercised its certiorari jurisdiction to review decisions that deprived a party to an international commercial transaction of its contractual choice of arbitration as the forum for resolving all disputes. Review was granted in those cases, even in the absence of a conflict among the circuits, "[b]ecause of the importance of the question presented." 417 U.S. at 510. Consistent with this Court's vigilant attention to enforcing arbitration and choice of forum agreements in international transactions, the important legal and practical questions presented in this case plainly warrant certiorari. The need for review is particularly magnified because the Federal Circuit has exclusive appellate jurisdiction over decisions of the ITC (28 U.S.C. § 1295(a)(6); 19 U.S.C. § 1337(c)); therefore, unless it is reversed, the decision below will "surely damage the fabric of international commerce and trade, and imperil the willingness and ability of businessmen to enter into international commercial agreements." *Scherk*, 417 U.S. at 517.

1.A. Article II(1) of the New York Convention, expressly and unambiguously provides that an arbitration agreement "shall" be recognized by each signatory nation: "[e]ach Contracting State shall recognize an agreement in writing under which the parties undertake to submit to arbitration all or any differences which have arisen or which may arise between them . . . ." 21 U.S.T. 2517, T.I.A.S. No. 6997 (1970).[6] The Convention is a self-

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[6] *See David L. Threlkeld & Co. v. Metallgesellschaft Ltd. (London)*, 923 F.2d 245, 250 (2d Cir.), *cert. dismissed*, 112 S. Ct. 17 (1991); *I.T.A.D. Assocs., Inc. v. Podar Bros.*, 636 F.2d 75, 77 (4th Cir. 1981); *McCreary Tire & Rubber Co. v. CEAT S.p.A.*, 501 F.2d 1032, 1037 (3d Cir. 1974).

executing treaty, having the full force and effect of federal legislation once acceded to by the United States. *See Bacardi Corp. of America v. Domenech*, 311 U.S. 150, 161 (1940) (construing General Inter-American Convention for Trade Mark and Commercial Protection).

This Court has repeatedly stated that the goal of the Convention is to promote the enforcement of commercial arbitration agreements in international contracts as a means of facilitating the smooth flow of international commerce. *Scherk*, 417 U.S. at 520 n.15; *see Mitsubishi*, 473 U.S. at 639 & n.21. As this Court further instructed, in both *Scherk* and *Mitsubishi*, courts in signatory countries like the United States "'should not be permitted to decline enforcement of such agreements . . . in a manner that would diminish the mutually binding nature of the agreements.'" 473 U.S. at 639 n.21; 417 U.S. at 520 n.15 (quoting G. Haight, Convention on the Recognition and Enforcement of Foreign Arbitral Awards: Summary Analysis of Record of United Nations Conference, May/June 1958, at 24-28 (1958)). By their express terms, therefore, the Convention requires enforcement of the parties' choice of arbitration as the forum for all disputes.

Recognition and enforcement of the arbitration agreement between Farrel and Pomini is also required under Article VI of the 1951 Agreement Supplementing the Treaty of Friendship, Commerce and Navigation between the United States and Italy. 12 U.S.T. 131, T.I.A.S. No. 4685 (1951). This bilateral treaty requires recognition of arbitration agreements between nationals of the United States and nationals of Italy, which is precisely the situation in this case. *See Batson Yarn & Fabrics Mach. Group, Inc. v. Saurer-Allma GmbH-Allgauer*

Maschinenbau, 311 F. Supp. 68, 76 (D.S.C. 1970); *Sumaza v. Cooperative Ass'n*, 297 F. Supp. 345, 349-50 (D.P.R. 1969); *Oregon-Pac. Forest Prods. Corp. v. Welsh Panel Co.*, 248 F. Supp. 903, 910 (D. Or. 1965).

In nullifying the parties' choice of a single forum for all disputes, the court of appeals paid no heed to these binding sources of law. Although the express requirements of the Convention and the bilateral treaty were fully briefed below, the court of appeals simply ignored these treaties by which the United States formally adopted "the international policy favoring commercial arbitration." *Mitsubishi*, 473 U.S. at 639.

B. Such judicial nullification of the parties' choice of forum is also directly contrary to this Court's holding in *The Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1 (1972).[7] In *The Bremen*, the parties to "a freely negotiated international commercial transaction" (*id.* at 17), selected the London Court of Justice as the forum for resolving all disputes. *Id.* at 2. "[I]gnoring its contract promise" (*id.* at 3), one of the parties filed suit in the United States and this Court held that the contractual forum-selection clause was binding and must be enforced.

The Court recognized that enforcement of such agreements "accords with ancient concepts of freedom of contract and reflects an appreciation of the expanding horizons of American contractors who seek business in all

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[7] "An agreement to arbitrate before a specified tribunal is, in effect, a specialized kind of forum-selection clause that posits not only the situs of suit but also the procedure to be used in resolving the dispute." *Scherk*, 417 U.S. at 519. *See Rodriguez de Quijas v. Shearson/American Express, Inc.*, 490 U.S. 477, 482 (1989).

parts of the world." *Id.* at 11. The Court also discerned the adverse practical consequences that would follow if forum-selection clauses were disregarded: "[t]he expansion of American business and industry will hardly be encouraged if, notwithstanding solemn contracts, we insist on a parochial concept that all disputes must be resolved under our laws and in our courts. . . . We cannot have trade and commerce in world markets and international waters exclusively on our terms . . . ." *Id.* at 9.

A fact in *The Bremen* that has great bearing on the present case is that litigation was also pending between the parties in the British courts, as the contract specified. *Id.* at 4. Since the forum-selection clause required the British court to be the sole forum, resort to an additional forum in the United States flatly contravened the contract and, therefore, was not permitted. Similarly, in this case, the pendency of arbitration proceedings in Geneva does not suffice to comply with the contractual choice of forum. *See also Mitsubishi*, 473 U.S. at 630-31. Provision of an additional forum in the ITC for adjudication of the private interests involved here denies enforcement of the contract in precisely the manner this Court proscribed in *The Bremen*. Accordingly, the same adverse consequences this Court foresaw in that case will now unfold unless the decision below is reversed.

C. The decision below is also at war with the express language of the FAA. Section 2 of the FAA provides that a written agreement to arbitrate in any contract involving commerce "shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." 9 U.S.C. § 2. The court of appeals regarded this direct statutory mandate as stating a policy favoring arbitration over only

judicial proceedings. App., *infra*, A21. But nothing in the language of this provision so limits its application. Indeed, this Court has consistently read Section 2 expansively, holding that it "create[s] a body of federal substantive law of arbitrability, applicable to any arbitration agreement within the coverage of the Act," *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 24 (1983), and that it manifests "at bottom a policy guaranteeing the enforcement of private contractual arrangements." *Mitsubishi*, 473 U.S. at 625. *See also Gilmer*, 111 S. Ct. at 1651 (1991); *Rodriguez de Quijas*, 490 U.S. at 480-81 (1989); *Shearson/American Express, Inc. v. McMahon*, 482 U.S. 220, 226 (1987); *Dean Witter Reynolds, Inc. v. Byrd*, 470 U.S. 213, 221 (1985). Moreover, the Convention, which the FAA implements, imposes the obligation to recognize arbitration agreements on "[e]ach [c]ontracting [s]tate," not solely on the courts of each state. Art. II(1).

In contrast to the court of appeals' limited view of a "judicial" policy favoring arbitration, this Court has recognized that United States treaty obligations and the FAA articulate a "*national* policy favoring arbitration." *Southland Corp. v. Keating*, 465 U.S. 1, 10 (1984) (emphasis added). *See also Mitsubishi*, 473 U.S. at 625, 630-31; *Scherk*, 417 U.S. at 520 n.15. In any event, because all Section 337 adjudications by the ITC are "on the record after notice and opportunity for a hearing" and subject to judicial review, the distinction crafted by the court below between judicial and administrative proceedings does not exist here. 19 U.S.C. § 1337(c).

Nor is there any merit to the court of appeals' conclusion that *Gilmer* created an exception to *Mitsubishi* that supports nullification of the parties' choice of

arbitration as the agreed-upon forum for resolving all disputes. Citing dictum in *Gilmer*, the court of appeals stated that an arbitration agreement may operate as a waiver of the right of access only to a judicial forum, but not to an administrative forum. App., *infra*, A21. But *Gilmer* created no such exception to *Mitsubishi* and none is warranted here.[8] Indeed, in the present case such an exception would engulf the holding of *Mitsubishi*

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[8] The holding in *Gilmer* is not inconsistent with *Mitsubishi* or with Pomini's position in this case. This Court held in *Gilmer* that the strong policy favoring arbitration compelled enforcement of the parties' agreement to arbitrate even where the claimant alleged a violation of statutory law. Dictum in *Gilmer* concerning the possibility of a separate EEOC investigation under the agency's "independent authority to investigate age discrimination" has no bearing on the international commercial transaction involved in this case for at least three reasons. 111 S. Ct. at 1653. First, *Gilmer* arose in a wholly domestic setting and did not implicate the Convention or treaties involved here. Second, *Gilmer* arose in an employment context which differs from the arms-length commercial transaction at issue here. Third, the dictum in *Gilmer* addressed the EEOC's independent authority to investigate, a point that has no force here where the ITC expressly rejected Farrel's request to self-initiate proceedings. App., *infra*, A55.

Pomini does not contend that the arbitration provision (or the Convention, bilateral treaty or FAA, for that matter) would preclude the ITC from "self-initiating" an investigation. The arbitration provision merely requires recognition and enforcement of the choice of forum as between the parties to the international commercial transaction. When a private party commences an ITC proceeding through the filing of a complaint, the ITC adjudicates "essentially private rights." *Young Engineers Inc. v. ITC*, 721 F.2d 1305, 1315 (Fed. Cir. 1983). Consistent with that view, Congress amended the statute in 1974 to permit a respondent to assert "[a]ll legal *and equitable* defenses" which it would have against the complainant in a judicial proceeding. *Id.* at 1315 (emphasis added) (upholding defense of *res judicata* or issue preclusion between the private parties to ITC proceedings).

altogether. Since Section 337 confers jurisdiction on the ITC to adjudicate antitrust disputes, 19 U.S.C. § 1337(a)(1)(A)(iii) ("restrain or monopolize trade and commerce in the United States"), a party in the position of Farrel or the plaintiff in *Mitsubishi* could abrogate its agreement to arbitrate by filing an antitrust claim with the ITC. Although this Court held in *Mitsubishi* that the parties' agreement to arbitrate must be honored, the decision below held that it is "contrary to law" (App., *infra*, A22) for the ITC to terminate proceedings in recognition of an agreement to arbitrate all disputes.

2. The decision below not only interferes with international treaty obligations, but also compels the parties to engage in costly proceedings that, as the ITC found, are altogether redundant of the agreed-upon arbitration. App., *infra*, A37-A38. In contrast to the ITC's sensible view that the parties' agreement to arbitrate should be honored and that there was no public interest to be served by further ITC proceedings, the court of appeals held that such proceedings cannot be terminated until the ITC decides whether a violation of Section 337 has occurred. App., *infra*, A13-A14. The court reached that result by disregarding the statute's express directive that "[a]ll legal and equitable defenses may be presented in all cases." 19 U.S.C. § 1337(c). The court of appeals held that while such defenses may be presented, the ITC nonetheless lacks authority to dispose of a case on the basis of a defense until it determines, on the merits, whether Section 337 has been violated. App., *infra*, A15. In so holding, the decision below rejected the ITC's

interpretation of its own organic statute,[9] denied the ITC all discretion in its procedural response to Section 337 complaints and deprived Pomini of a valid defense that is determinative of the private parties' rights.

The court of appeals' construction of Section 337 necessarily precludes the ITC from terminating cases on the basis of such dispositive defenses as lack of jurisdiction, estoppel, laches, release, waiver, accord and satisfaction, duress, failure of consideration, and failure to join an indispensable party, as well as arbitrability.[10] Under prior ITC practice, such defenses served as grounds for the termination of proceedings, just like the grant of a motion to dismiss or a motion for summary judgment permits a federal district court to dispose of cases on dispositive threshold issues. *See, e.g., In re Certain Catalyst Components and Catalysts for the Polymerization of Olefins*, Inv. No. 337-TA-307, 55 Fed. Reg. 30,284 (USITC July 25, 1990) (Notice of Commission Decision Not to Review

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[9] *See Commodity Futures Trading Comm'n v. Schor*, 478 U.S. 833, 844-45 (1986); *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837, 844-45 (1984); *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 380-81 (1969).

[10] The courts of the United States, including this Court, have long recognized that a binding agreement to arbitrate is an affirmative equitable defense. *Shanferoke Coal & Supply Corp. v. Westchester Serv. Corp.*, 293 U.S. 449, 452 (1935) ("the special defense setting up the arbitration agreement is an equitable defense"); *Hilti, Inc. v. Oldach*, 392 F.2d 368, 371-72 (1st Cir. 1968) (upholding assertion of defense of arbitration); *Standard Chlorine, Inc. v. Leonard*, 384 F.2d 304, 308 (2d Cir. 1967) (recognizing *Shanferoke* holding that assertion of arbitration agreement is an equitable defense). This defense was well-established by 1974, when Congress amended Section 337(c) to provide for the assertion of "all legal and equitable defenses" in all investigations. *See Young Engineers*, 721 F.2d at 1315-16.

Initial Determination Terminating Investigation for Lack of Indispensable Party). The decision below requires all ITC proceedings to run their full course, including adjudication on the merits, even in the face of a dispositive defense.

Nothing in the language of the statute or its legislative history indicates that a valid defense of arbitrability may be raised but that it cannot be adjudicated unless and until the ITC determines the merits of the underlying dispute. Moreover, the ITC's established practice is to dispose of arbitrability defenses in precisely the fashion it did here. App., *infra*, A32 *et seq.* *See In re Certain Fluidized Bed Combustion Systems*, Inv. No. 337-TA-213, USITC Pub. 1752 (Sept. 1985). In contrast, the decision below locks the ITC into a procedural straitjacket that defies settled rules of statutory construction and established agency interpretation.

The decision below would warrant review even if its only error was to misread Section 337 in a way that, contrary to the express terms of their agreement to resolve disputes through arbitration, burdens the parties, and the ITC, with duplicative, costly and unnecessary proceedings. But the error of the decision below is not merely one of statutory interpretation. The decision of the court of appeals stands four-square against the international and national policy favoring arbitration, particularly of transnational commercial disputes; it stands in direct conflict with United States treaty obligations; and it destroys the certainty that is "an indispensable element in international trade, commerce, and contracting." *Scherk*, 417 U.S. at 518 (quoting *The Bremen*, 407 U.S. at 13-14). Because of the context in which this case arose (a dispute between two parties under an international licensing

agreement) and the particular jurisdiction of the Federal Circuit (28 U.S.C. § 1295(a)(6); 19 U.S.C. § 1337(c)), the decision below will resonate adversely throughout the world of international commerce. Accordingly, this Court's review is plainly warranted.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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Dated: March 16, 1992

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

91-1111

FARREL CORPORATION,

Appellant,

v.

UNITED STATES INTERNATIONAL
TRADE COMMISSION,

Appellee,

and

POMINI FARREL S.p.A. and POMINI, INC.,

Intervenors.

DECIDED: November 22, 1991

Before MICHEL, Circuit Judge, COWEN, Senior Circuit Judge, and PLAGER, Circuit Judge.

MICHEL, Circuit Judge.

Farrel Corporation ("Farrel") appeals the decision of the U.S. International Trade Commission ("ITC" or "Commission") terminating its investigation under 19 U.S.C. § 1337 (1988) on the basis of a prior agreement between Farrel and respondent/intervenor Pomini Farrel S.p.A. ("Pomini") to arbitrate certain disputes. In re

Certain Internal Mixing Devices and Components Thereof, Inv. No. 337-TA-317 (U.S. Int'l Trade Comm'n) (Nov. 2, 1990). Because the governing statutory section, 19 U.S.C. § 1337(c), does not authorize the termination of ongoing investigations except in certain specified circumstances not present here, the Commission's premature termination in light of an arbitration agreement was contrary to law, and therefore, we reverse.

BACKGROUND

The Licensing Agreements

Farrel manufactures and distributes worldwide heavy machinery used in mixing rubber and plastics. Pomini, an Italian corporation, also sells imported rubber and plastics processing machinery in competition with Farrel. Complaint, as amended, In re Certain Internal Mixing Devices and Components Thereof, Inv. No. 337-TA-317, (U.S. Int'l Trade Comm'n) (July 24, 1990) ("ITC Complaint").

From 1957 until 1986, Farrel and Pomini entered into a series of licensing agreements allowing Pomini to manufacture, using Farrel's technology, and sell a line of rubber and plastics mixing machines worldwide, with the exceptions of the United States, the United Kingdom and Japan. The agreements included provisions requiring that all designs, specifications, drawings, blueprints, photographs, reproductions, and other materials be returned by Pomini on the expiration of the contractual relationship.

Each of the licensing agreements contained an arbitration clause requiring that "all disputes" be resolved

by arbitration under the International Chamber of Commerce ("ICC"). For example, in 1973 Farrel and Pomini entered into an agreement, superseding an earlier agreement, that extended Pomini's rights to make and sell the machinery with continued technical assistance from Farrel. The agreement contained the following provision governing arbitration of disputes:

> All disputes arising in connection with the present Agreement shall be finally settled by arbitration. Arbitration shall be conducted in Geneva, Switzerland, in accordance with the rules of Arbitration of the International Chamber of Commerce.
>
> Judgment upon the award rendered may be entered in any Court having jurisdiction, or application may be made to such Court for a judicial acceptance of the award and an order of enforcement, as the case may be.

Farrel/Pomini License Agreement, paragraph 28, Mar. 22, 1973. On January 1, 1976, Pomini and Farrel renewed the 1973 Agreement for an additional ten-year period, providing that the agreement was to continue in force thereafter unless either party gave six months' prior written notice of termination. While the Agreement did change some provisions of its 1973 predecessor, it did not alter the arbitration clause.

Civil Actions Against Pomini

On January 1, 1986, in accordance with the license provisions, Farrel terminated "Pomini's rights to use or to

retain any Farrel technology." Farrel Br. at 8. Approximately seven months later, Pomini announced that it planned to enter the U.S. market and supply American customers with internal mixing devices and components it manufactured in Italy. Farrel later alleged to the ITC that Pomini was able to do this by using trade secrets which Pomini had misappropriated from Farrel. ITC Complaint at 15-18. As a result, Farrel charged that it "has lost significant business to Pomini[,] . . . has been forced to furlough some of its work force, and is threatened with further decreases in production workers, sales staff and technical staff, through layoffs or attrition." Farrel Br. at 8.

In response to what it characterized as "Pomini's unfair competition," Farrel filed a complaint against Pomini in the Tribunal of Busto Arsizio, an Italian civil court, alleging, inter alia, the misappropriation of trade secrets and infringement of various patents and trademarks registered in Italy. Farrel Br. at 8-9. A similar suit was filed in the Scottish Court of Sessions, in which Farrel alleged that Pomini infringed certain of its patents and trademarks registered in the United Kingdom. In both suits, Pomini asserted, as an affirmative defense, the "existence of binding arbitration agreements between the parties requiring that all disputes . . . be resolved by an arbitration panel of the [ICC]," and therefore both tribunals were precluded from ruling on the merits of Farrel's claims.[1] Pomini Br. at 3.

On June 29, 1988, Farrel also filed suit in the United States District Court for the Northern District of

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[1] Farrel has since dismissed the Scottish action.

Ohio, alleging that Pomini and its newly-formed U.S. marketing subsidiary, Pomini, Inc. (collectively "Pomini"), committed various patent and trademark-related violations, and seeking injunctive relief as well as treble and punitive damages. Farrel Corp. v. Pomini, Inc., Civ. Action No. C88-2161A (N.D. Ohio). Pomini responded by filing a Motion to Stay Proceedings and to Compel Arbitration, based on the agreements' arbitration clauses. On September 10, 1990, the district court granted Pomini's motion, holding that if Farrel desired to pursue its claims against Pomini, it must do so before an ICC arbitration panel.[2]

On October 9, 1990, pursuant to 28 U.S.C. § 1295(a)(1) (1988), which grants this court exclusive appellate jurisdiction over suits involving patents, Farrel filed a notice of appeal from the district court's order to the Federal Circuit. On Farrel's request, that appeal was dismissed by this court on December 28, 1990.

Proceedings Before the Commission

Meanwhile, on July 24, 1990, Farrel filed a complaint against Pomini with the Commission, alleging that Pomini violated 19 U.S.C. § 1337(a) in the importation and sale of internal mixing machines and their components by misappropriating trade secrets, committing trademark infringement and falsely representing the

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[2] The district court did note, however, that its determination of the arbitrability of claims under both the trademark and the technology licensing agreements was contingent upon confirmation by the arbitrator. Farrel Corp. v. Pomini, Inc., No. C88-2161A, slip op. at 27 (N.D. Ohio) (Sept. 10, 1990).

manufactures' source. Farrel petitioned for an immediate cease and desist order, under 19 U.S.C. § 1337(f) and a limited permanent exclusion order forbidding entry into the United States of Pomini's internal mixing devices. ITC Complaint at 29. In its complaint, Farrel alleged the existence of the then-pending Ohio district court proceedings.

On the basis of the allegations contained in Farrel's complaint, the Commission voted on August 21, 1990, to institute an investigation. Although the Commission was informed of the pending district court action and Pomini's Motion to Compel Arbitration, the Commission decided to institute an investigation based on Farrel's allegations and did not reach the arbitrability issue, because that question was, according to the ITC investigating attorney, "not presently before the Commission."

After official institution of the investigation, Pomini filed a Motion for Summary Determination, seeking, inter alia, termination of the Commission's investigation on the basis of the arbitration agreement between the parties and responses to the complaint which asserted the existence of the arbitration agreement as an affirmative defense against Farrel's allegations.

On October 3, 1990, the administrative law judge ("ALJ") assigned to the case issued an initial determination terminating the investigation based on: (1) the existence of the arbitration clauses in the technology licensing agreements; (2) a previous Commission decision terminating an investigation in light of an arbitration agreement, In re Certain Fluidized Bed Combustion Systems, U.S.I.T.C. Pub. 1752, Inv. No. 337-

TA-213 (Final) (Sept. 1985); and (3) the preclusive effect of the Ohio district court decision.

Farrel filed a petition for review of the ALJ's initial decision, appealing only its misappropriation of trade secrets claim.[3] The Commission, in a lengthy and detailed opinion, affirmed the initial decision to terminate the investigation. In re Certain Internal Mixing Devices and Components Thereof, Inv. No. 337-TA-317 (U.S. Int'l Trade Comm'n) (Nov. 2, 1990) ("Comm'n Op."). In reaching its determination, the Commission recognized that

> a party to an international transaction will be required to honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims.

Id. at 6 (citing Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614, 628 (1985)). The Commission did not base its determination on the statutory language or legislative history of section 337, but, instead, on the broad federal policy favoring enforcement

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[3] Farrel did not contest the termination of the investigation as to the trademark infringement and false representation of source claims which were found by the district court to be subject to arbitration. The misappropriation of trade secrets claim, however, was not alleged before the district court. In addition, Farrel did not seek review of the positions it asserted before the ALJ that are not relevant to this appeal.

of arbitration agreements. According to the Commission, compelling arbitration is proper, where, as here, the "claim of trade secret misappropriation is 'inextricably connected to the license agreement,'" and no "legal constraints external to the parties' agreement which foreclose[d] arbitration" exist. Comm'n Op. at 8, citing Fluidized Bed, slip op. at 5. The Commission rejected Farrel's contentions that Pomini waived its arbitration rights during the Italian litigation, that collateral estoppel was inapplicable because the district court's opinion dealt only with a "preliminary" matter, that the Commission's Fluidized Bed decision should be overruled, and that, in the alternative, the Commission should "self-initiate" an investigation into the section 337 violations that Farrel alleged.

A dissenting Commissioner noted that section 337(a) provides that a violation "shall be dealt with, in addition to any other provision of law . . ." and has been the basis for ITC investigations proceeding concurrently with district court actions, reasoning that termination of the instant investigation "giv[es] greater deference to an arbitral tribunal than it [does] to a U.S. District Court." Dissent from Comm'n Op. at 2 (Rohr, Comm'r, dissenting). Nor, Commissioner Rohr explained, is the Supreme Court's decision in Mitsubishi controlling, or even applicable, as the Commission majority assumed. Id. He noted that case simply adopted a limited exception to the principle that antitrust claims are not capable of arbitration. Id. Finally, Commissioner Rohr argued, "no overriding policy [exists] to defer the case to arbitration." Id. at 3. On the contrary, he concluded, "[a]rbitration cannot effectively vindicate [a] complainant's section 337 rights [because the] timing of relief to complainant through arbitration will likely only be available to

complainant far beyond the strictly enforced time limitations of section 337." Id.

On appeal to this court, Farrel argues that the Commission's decision is contrary to the statutory language of and Congressional intent underlying section 337, and that Mitsubishi is inapplicable to the arbitrability of section 337 claims.

DISCUSSION

I.

We have jurisdiction of this appeal pursuant to 28 U.S.C. § 1295(a)(6) (1988) (jurisdiction over final determinations relating to unfair trade practices made under Section 337)[4] and 19 U.S.C. § 1337(c) (1988). While this court generally reviews ITC interpretations of

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[4] The present appeal is distinguishable from Block v. United States Int'l Trade Comm'n, 777 F.2d 1568, 228 USPQ 37 (Fed. Cir. 1985), in which this court dismissed an appeal from the U.S. International Trade Commission (ITC) for lack of jurisdiction after the ITC terminated "the investigation as abated." Id. at 1570, 228 USPQ at 38. Because the ITC terminated its investigation without ruling on the merits, this court held that the ITC's dismissal was not an appealable final determination. Id. at 1568, 228 USPQ at 37. Further, because the ITC's dismissal was without prejudice to request a second investigation, the court held that the dismissal was neither intrinsically a final determination nor the equivalent of a final determination. Id. at 1571, 228 USPQ at 38-39. In the instant case, however, the dismissal was with prejudice and, since petitioner cannot request reopening, must be considered a final determination. As such, it is subject to this court's review. Amgen, Inc. v. United States Int'l Trade Comm'n, 902 F.2d 1532, 1537, 14 USPQ2d 1734, 1739 (Fed. Cir. 1990).

statutory provisions de novo, some deference to constructions by the agency charged with its administration may be appropriate, particularly if technical issues requiring some expertise are involved. Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 844 (1984). See Corning Glass Works v. United States Int'l Trade Comm'n, 799 F.2d 1559, 1565, 230 USPQ 822, 826, 4 Fed. Cir. (T) 118, 122 (1986); Texas State Comm'n for the Blind v. United States, 796 F.2d 400, 406 (Fed. Cir. 1986) ("The issue to be decided by this court is whether the statute is capable of more than one interpretation and whether the agency's interpretation is reasonable."). Such deference is limited, however, by "our obligation to honor the clear meaning of a statute, as revealed by its language, purpose, and history." Al Tech Specialty Steel Corp. v. United States, 745 F.2d 632, 642, 3 Fed. Cir. (T) 1, 13 (1984) (quoting Southern [sic] Community College v. Davis, 442 U.S. 397, 411 (1979)) (further citations omitted). See Corning Glass, 799 F.2d at 1565, 230 USPQ at 826, 4 Fed. Cir. (T) at 122.

Under section 337, the Commission has exclusive authority to investigate, either on the basis of a complaint or on its own initiative, allegations that foreign importers are, inter alia, engaging in "[u]nfair methods of competition and unfair acts in the importation of articles," 19 U.S.C. § 1337(a)(1)(A), or "infringi[ing] a valid and enforceable United States patent," 19 U.S.C. § 1337(a)(1)(B)(i). The statute also establishes procedures the Commission must follow in its investigations, and sets strict timetables for their completion. See Sealed Air Corp. v. United States Int'l Trade Comm'n, 645 F.2d 976, 987, 209 USPQ 469, 478-79 (CCPA 1981) (describing the procedures under the statutory framework). The ITC, through its staff, conducts

the investigations independently of the wishes of the parties, and in reaching its final determination on an alleged violation must consider factors that may or may not interest the parties: the "public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers." 19 U.S.C. § 1337(c).

On appeal, Farrel "seeks to remedy the abdication by the [Commission] of its duty under section 337 . . . to investigate and deal with unfair acts in the importation and sale of articles into the United States, the threat or effect of which is to destroy or substantially injure a domestic industry." Farrel Br. at 16-17. Farrel contends that the Commission, by relying on a private contractual arbitration agreement to terminate its investigation, acted contrary to the statute. According to Farrel, the language of section 337 is clear: Once the Commission begins a section 337 investigation, section 337(c) authorizes termination of the investigation only in limited and specific circumstances -- after its entry of a consent order or approval of a settlement agreement between the parties.[5] Because neither of these conditions precedent

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[5] Investigation under section 337 may also be terminated "[i]f the Commission has reason to believe the matter before it is based solely on alleged acts and effects which are within the purview of" the countervailing duty and antidumping laws. 19 U.S.C. § 1337(b)(3) (emphasis added). None of the parties on appeal contend that the termination procedures under section 337(b)(3) are implicated in this case.

Other situations could arise where a section 337 investigation may be terminated without a conclusive determination. For example, we decline to address whether

to termination was satisfied in this investigation, Farrel contends that termination was improper. At least where complainant objects, for the reasons set forth below, we agree.

Section 337 provides that "[t]he Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative," 19 U.S.C. § 1337(b)(1) (emphasis added), and further states that

> [t]he Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of a settlement agreement, terminate any such investigation, in whole or in part, without making such a determination.

19 U.S.C. § 1337(c) (emphasis added).

The use of "shall" in a statute is "the language of command," Association of Am. R.R. v. Costle, 562 F.2d 1310, 1312 (D.C. Cir. 1977), and where "the directions of a statute are mandatory, then strict compliance with the statutory terms is essential to the validity of the administrative action." 1 N. Singer, Sutherland Statutory

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the ITC has authority to terminate an investigation where the complaint is withdrawn before the ITC concludes an investigation. In the instant case, however, the investigation was terminated over the objection of the complainant. We also decline to address whether the ITC could terminate an investigation where the issue becomes moot, for example because of the expiration of the patent.

Construction § 4.18, at 174 (4th ed. 1985). On its face, the statutory language states that after a section 337 investigation is instituted,[6] its non-conclusive termination may be based only on those grounds explicitly provided for in the statute itself. The statutory exceptions in section 337(c) must be interpreted narrowly and neither the Commission nor Pomini contends that the arbitration agreement could somehow be characterized as a consent order or a settlement agreement between the parties.

To recognize an additional exception as the Commission implies that we should, would not only violate traditional canons of statutory interpretation, but, in this case, would create an exception inconsistent with those specified by Congress. As the Commission concedes, in terminating an investigation on either of the two grounds recognized in section 337(c), it has discretion, after reviewing the settlement agreement or the proposed consent order, to terminate an investigation. The Commission admits that such oversight, which ensures that the public interest will be taken into account, is absent when, as here, the ITC declines to exercise its jurisdiction. In the instant case, an arbitral award had not yet been determined and thus could not have been reviewed by the Commission.

In light of the exceptions' clear, precise language and the Commission's ability to review consent orders and settlement agreements, this court cannot create an additional and inconsistent statutory exception. See 2A N.

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[6] We do not decide here, nor need we on the facts of this case, whether the Commission may refuse to initiate an investigation on the basis of the existence of a contractual arbitration agreement between the parties.

Singer, Sutherland Statutory Construction § 47.11, at 144-45 (4th ed. 1985). Therefore, based on the plain language of section 337(b)(1) and (c), we conclude that the Commission acted contrary to law by terminating its investigation on the basis of an arbitration agreement without first determining whether a violation existed as required under section 337. The ITC has not pointed to anything in the legislative history that suggests that Congress intended section 337 to have anything other than its plain meaning. Nor, as discussed below, did our own review find legislative history that supports the Commission's view.

II.

The Commission argues that such a reading of section 337(c) limits ITC discretion too narrowly because the statute also provides that "[a]ll legal and equitable defenses may be presented in all cases." 19 U.S.C. § 1337(c). While we agree with the Commission that an arbitration agreement may be considered an equitable defense in certain circumstances,[7] given section 337's text and its legislative history, the Commission's understanding of the provision is too expansive and, if adopted by this court, would severely limit the protection afforded by the statute.

The Commission argues that it "has authority pursuant to section 337(c) to terminate an investigation

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[7] See e.g., Shanferoke Coal & Supply Corp. v. Westchester Service Corp., 293 U.S. 449, 452 (1935) ("the special defense setting up the arbitration agreement is an equitable defense") (emphasis added); Hilti, Inc. v. Oldach, 392 F.2d 368, 371 (1st Cir. 1968) (upholding assertion of defense of arbitration).

without making a determination regarding unfair acts after considering the assertion of a defense." Gov't Br. at 13. However, this reading by the Commission only underscores its confusion as to what the "present[ation]" of "[a]ll legal and equitable defenses" provision entails. While the statute does require the Commission to consider defenses, nowhere in the text does language appear permitting termination of an investigation without concluding, as section 337(c) commands, whether a violation exists. Clearly, a defense asserted under the "all defenses" provision would allow the Commission to find that no violation exists or to temper any relief ultimately granted, but neither the plain language of the statute nor the legislative history suggests that any defense raised should excuse the Commission from making any determination whatsoever. The report of the Senate Finance Committee states, "section 337(c) . . .require[s] that the Commission determine whether there is a violation of this section in each investigation it conducts." S. Rep. No. 1298, 93d Cong., 2d Sess. 195, reprinted in 1974 U.S. Code Cong. & Admin. News 7186, 7328 (emphasis added). The joint committee report further states that the Commission must consider "all legal and equitable defenses . . . in the determination of violations of the statute." Id. at 7329 (emphasis added).

The legislative history also makes clear that the "all defenses" provision was not intended to deprive the Commission of its jurisdiction to conclude section 337 investigations, but rather to afford the accused party a "full due process hearing" before the Commission "determine[s] whether there is a violation . . . in each investigation it conducts." Id. at 7328 (emphasis added). Section 337(c)'s legislative history convincingly establishes that the "all defenses" provision was enacted to protect the public

interest "in cases where there is any evidence of price gouging or monopolistic practices in the domestic industry" by the complainant. Id. at 7330. The provision also allows "the Commission to review the validity and enforceability of patents." Id. at 7329. To adopt the Commission's reasoning that an equitable defense can be raised to abort an inquiry before the public interest can be considered, turns the purpose of section 337 on its head.

This construction of the "all defenses" provision is in no way contrary, as the Commission contends, to the reasoning of Young Eng'rs Inc. v. United States Int'l Trade Comm'n, 721 F.2d 1305, 219 USPQ 1142 (Fed. Cir. 1983), in which this court held that the Commission could consider the res judicata effect of a judicial determination. Id. at 1316, 219 USPQ at 1150. The Commission argues that "[t]his reasoning is particularly relevant to this case given the Commission's finding that an arbitration proceeding would provide the same, and possible [sic] more remedies than remedies available in the Commission proceedings." Gov't Br. at 27. What the Commission fails to recognize, however, is that no arbitral award had yet been made in this case against which res judicata could have applied. In any event, the relevant threshold issue is not the availability of remedies but whether the Commission can avoid its statutorily mandated duty to reach a determination because of a private arbitration agreement.[8] In addition, the res judicata effects of a

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[8] In any event, it appears quite possible that, in exercising its broad discretionary powers to fashion an appropriate remedy, the Commission can consider remedies ordered by an arbitral forum. That such discretion may be available does not excuse it from reaching a determination of what remedy is appropriate.

collateral proceeding, whether in another judicial or administrative forum, go to the merits of a complainant's claim, and not to the exercise of jurisdiction of the tribunal. Even in Young Engineers, despite consideration of the res judicata effects of a judicial decision, the Commission was not excused from making a final determination on the existence of violations. Although, as the Commission points out, this court stated that "if a second court proceeding would be precluded, there seems [to be] no reason that the Commission must devote time and attention to the matter," it went on to add that preclusion only applied to that "phase" of the claim already litigated. Id. at 1315, 219 USPQ at 1151. Thus, the defense of res judicata did not prevent the Commission from reaching a final determination of violation, but simply excused it from re-opening an already fully and fairly litigated fact issue.

III.

Finally, as noted above, the Commission based its decision not on the grounds advanced by the Commission on appeal, but solely on the broad federal policy favoring arbitration, especially in international transactions. The Commission's decision to terminate the instant investigation, as well as that in the Fluidized Bed case cited by the ITC, relied heavily on Mitsubishi, in which the Supreme Court held that an agreement to arbitrate conflicts arising from an international contract should be enforced by an American district court, even though the claims were based on the antitrust laws and not the contract's terms. 473 U.S. at 629. Underlying its decision, the Court said, was the "emphatic federal policy in favor of arbitral dispute resolution," which "applies with special force in the field of international commerce." Id. at 631.

However, while we disagree with Farrel's characterization of Mitsubishi as simply holding that "certain statutory, antitrust claims [are] arbitrable," we ultimately conclude that the rationale of Mitsubishi does not support the ITC's termination of the instant proceeding. Mitsubishi's reasoning rests in large part on the Federal Arbitration Act, 9 U.S.C. § 1, et seq. (1988), which, by its terms, has particular relevance to judicial recognition of arbitration agreements. The Commission, of course, is not a court, and it has exclusive jurisdiction to administer section 337, which lacks provisions allowing for private enforcement either in the courts or through arbitration.

Even assuming, arguendo, that the strong preference for enforcement of arbitration agreements extends beyond the courtroom doors, section 337 actions are still excluded from its ambit. As the Supreme Court noted in Mitsubishi, not "all controversies implicating statutory rights are suitable for arbitration," 473 U.S. at 627, and

> [j]ust as it is the congressional policy manifested in the Federal Arbitration Act that requires courts liberally to construe the scope of arbitration agreements covered by that Act, it is the congressional intention expressed in some other statute on which the courts must rely to identify any category of claims as to which agreements to arbitrate will be held unenforceable.

Id.

Among the various factors which indicate whether a statutory claim is not arbitrable is Congress' intent to waive the right of access to a particular decision making forum. Id. at 628. Such evidence, the Court explained, "will be deducible from the text or legislative history [of the statute]. Having made the bargain to arbitrate, the party should be held to it unless Congress itself has evinced an intention to preclude a waiver of judicial [or administrative] remedies for the statutory rights at issue." Id. (citations omitted).

Farrel argues that section 337(a)'s provision that violations, "when found by the Commission to exist shall be dealt with, in addition to any other provision of law," clearly evinces Congress' intent that section 337's protection and procedures cannot be waived by an arbitration agreement. Farrel Br. at 22-23. By this language, "Congress implicitly recognized that more than one proceeding might result from its statutory scheme." In re Convertible Rower Exerciser Patent Litigation, 616 F. Supp. 1134, 1143, 228 USPQ 726, 732 (D. Del. 1985). Indeed, the legislative history of section 337 indicates that the statute was designed to supplement other provisions of law, which were viewed as inadequate to fully protect U.S. industries from unfair foreign trade practices.[9]

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[9] As this court has previously noted, in the Twelfth Annual Report of the Unites States Tariff Commission 21 (1928), the Commission stated:

> Existing law, apart from section [337], is wholly inadequate to protect domestic owners of patents from violation of their patent rights through the importation and sale of infringing articles.

(continued...)

Furthermore, section 337(b)(1), limiting the discretion of the Commission to suspend investigations, provides additional evidence that Congress views the Commission's role in investigating possible violations as unique and beyond the scope of purely private enforcement. Section 337(b)(1) allows the Commission to toll from the statutorily imposed one-year or 18-month limitations for completion on an investigation, "any period of time during which such investigation is suspended because of proceedings in a court or agency of the United States involving similar questions concerning the subject matter of such investigation." 19 U.S.C. § 1337(b)(1) (emphasis added). Clearly, this language indicates that Congress not only envisioned the Commission retaining jurisdiction while a concurrent proceeding progressed, but it also strongly suggests that the only other fora that may effect an ongoing investigation are federal government agencies and courts. By not exercising its jurisdiction simply because of a contractual arbitration clause, the Commission "giv[es] greater deference to an arbitral tribunal than . . . a U.S. District Court." Dissent from Comm'n Op. at 2. Such strained logic cannot comport with the complex statutory trade scheme Congress has fashioned over the last seventy years.

In any event, while Mitsubishi did address an international arbitration agreement, more on point to the facts here, we believe, is Gilmer v. Interstate/Johnson Lane Corp., ___ U.S. ____, 111 S. Ct. 1647 (1991), decided after the Commission's decision in this case. In

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[9](...continued)
Lannom Mfg. Co. v. United States Int'l Trade Comm'n, 799 F.2d 1572, 1577, 231 USPQ 32, 36, 4 Fed. Cir. (T) 131, 136-37 (1986).

Age Discrimination in Employment Act ("ADEA"), 29 U.S.C. § 621, et seq. (1988), can be subjected to compulsory arbitration pursuant to an arbitration agreement, with the arbitration agreement acting as a waiver of the right of access to a judicial forum. Although the Court stated that "[i]t is by now clear that statutory claims may be the subject of an arbitration agreement," it recognized the different effect that an arbitration agreement has on the judicial and administrative tribunals' proper exercise of jurisdiction. Id. 111 S. Ct. at 1652.

Like Farrel, which sought relief both in the district court and at the Commission, the petitioner in Gilmer sought to enforce his rights under ADEA in the district court and at an administrative agency, the Equal Employment Opportunity Commission ("EEOC"). The Supreme Court, however, noted that the arbitration agreement operated as a waiver of the right of access only to the judicial and not the administrative forum. Gilmer, ____ U.S. at _____, 111 S. Ct. at 1653 ("An individual ADEA claimant subject to an arbitration agreement will still be free to file a charge with the EEOC, even though the claimant is not able to institute a private judicial action."). Answering the concern that employers could circumvent ADEA by requiring an arbitration clause in employment contracts, the Court explained that EEOC review and enforcement were not precluded:

> Indeed, Gilmer filed a charge with the EEOC in this case. In any event, the EEOC's role in combating age discrimination is not dependent on the filing of a charge; the agency may receive information concerning alleged violations of the ADEA "from any source," and it has

> independent authority to investigate age discrimination. (Citations omitted.)

Gilmer, ____ U.S. at ___; 111 S. Ct. at 1653. Because the Commission, like the EEOC, is by statute available to a specific class of complainants, has independent authority to investigate alleged or apparent wrongs, and possesses a statutory mandate to promote the public interest, we see no compelling reason to treat the Commission any differently than the EEOC. Just as the EEOC's unique protection may not be privately contracted away, neither should the Commission's. Therefore, we hold that the Commission erred by relying on the broad federal policy favoring arbitration as a ground to terminate an ongoing section 337 investigation in circumstances where the statute enumerates only two limited and specific circumstances for terminations concededly not present in this case.

CONCLUSION

The Commission acted contrary to law by terminating an on-going investigation because of an arbitration agreement. The language of section 337(c) explicitly limits the circumstances in which the Commission may terminate an investigation without reaching a determination as to whether a violation exists. Neither of those circumstances was present here. In any event, the authority the Commission relies on is inapplicable to this case. The Commission's decision terminating the instant investigation is reversed and the case is remanded. On remand, the Commission should reinstate its investigation of Farrel's complaint and determine, as the statute requires, whether a violation of section 337 exists.

REVERSED AND REMANDED

COSTS

Each party is to bear its own costs.

APPENDIX B

UNITED STATES INTERNATIONAL
TRADE COMMISSION
Washington, D.C. 20436

In the Matter of	)	Inv. No. 337-TA-317
	)	
CERTAIN INTERNAL MIXING AND COMPONENTS THEREOF	)	

NOTICE OF COMMISSION TO REVIEW AN INITIAL DETERMINATION OF NO VIOLATION AND ISSUANCE OF COMMISSION OPINION

AGENCY: U.S. International Trade Commission

ACTION: Notice

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined to review in its entirety an initial determination (ID) issued by the presiding administrative law judge (ALJ) terminating the investigation in the above-captioned investigation. The Commission has determined to issue its own opinion affirming the holding of the ALJ terminating the investigation. The Commission has also determined not to request further briefing at the present time.

ADDRESSES: Copies of the ID and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 alm. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-252-1000.

FOR FURTHER INFORMATION CONTACT: Scott Andersen, Esq., office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-2521092.

Hearing impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810.

SUPPLEMENTARY INFORMATION: On October 3, 1990, the presiding ALJ issued an ID terminating the investigation on the basis, inter alia, of arbitration clauses in licensing agreements entered into by the parties. Petitions for review of the ID were filed by the complainant Farrel Corporation, respondents Pomini S.p.A. and Pomini, Inc., and the Commission investigative attorneys.

By order of the Commission.

Kenneth R. Mason
Secretary

Issued: November 2, 1990

UNITED STATES INTERNATIONAL
TRADE COMMISSION
Washington, D.C. 20436

In the Matter of	
CERTAIN INTERNAL MIXING DEVICES AND COMPONENTS THEREOF	Inv. No. 337-TA-317

COMMISSION OPINION

This matter is before the Commission by virtue of an initial determination (ID) issued by the presiding administrative law judge (ALJ) holding that the above-captioned investigation should be terminated. The Commission has determined to review the ID on its own motion, affirm the holding of the ALJ, and issue a Commission opinion.[1] For the reasons set forth below, the Commission determines that this investigation should be terminated in order to give effect to the arbitration provisions of the licensing agreements entered into by the parties.

Procedural Background

On June 29, 1988, complainant Farrel Corporation (Farrel or complainant) filed a complaint in the United

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[1] Acting Chairman Anne E. Brunsdale, Commissioner Seeley G. Lodwick, and Commissioner Don E. Newquist join in the Commission Opinion. Commissioner David Rohr dissents for the reasons set forth in his dissent.

States District Court for the Northern District of Ohio (District Court) against respondents alleging (1) trademark infringement, (2) false representation, (3) unfair competition, (4) violation of the Ohio Deceptive Trade Practices Act, O.R.C. § 4165.01, (5) breach of contract, and (6) patent infringement. Respondents Pomini S.p.A. and Pomini, Inc. (respondents) did not answer the complaint, but rather moved to stay the proceedings and to compel arbitration. The District Court stayed discovery on the case in chief, but permitted discovery solely on the issue of the arbitrability of the claims before the court.

On July 24, 1990, Farrel filed a complaint with the Commission, alleging a violation of Section 337 by respondents in the importation and sale of certain internal mixing devices and components thereof by reason of misappropriation of trade secrets, infringement of U.S. registered trademark No. 551,425, and false representation of source. Institution of an investigation was objected to by respondents on the basis of arbitration clauses contained in licensing agreements between the parties. The Commission voted to institute an investigation of Farrel's complaint on August 21, 1990.

On September 6, 1990, respondents filed a motion for summary determination and for a stay of discovery asserting, inter alia, that the investigation should be terminated because of the parties' agreements to arbitrate all disputes arising out of their licensing agreements.

On September 11, 1990, the District Court granted respondents' August 3, 1988, motion to stay the district court proceedings and to compel arbitration. The District Court examined the various licensing agreements entered into between the parties and found that they contained

arbitration clauses which applied after the termination of the business relationship in 1986. In addition, the District Court held that the parties were bound by the International Chamber of Commerce (ICC) arbitration rules pursuant to the arbitration clauses in the licensing agreements. The District court noted that these rules require the arbitrator to hear jurisdictional challenges and make a prima facie determination of the validity of an agreement to arbitrate prior to hearing the merits.[2] The District Court held that the ICC arbitrator must determine which of Farrel's claims are arbitrable, and dismissed the case.

On October 3, 1990, the presiding ALJ issued the ID terminating the investigation, based on the existence of arbitration clauses in the parties' licensing agreements, the Commission's previous decision in Fluidized Beds, and the preclusive effect of the District Court decision.

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[2] Regarding the arbitrability of Farrel's various claims, the District Court held first that Farrel's trademark infringement claims were covered by the 1972 trademark agreement which imposed a continuing obligations on respondents not to use or adopt Farrel's trademark after termination of the agreement. Thus, the arbitration clause in that agreement was found by the District Court to require the ICC arbitrator to decide whether the trademark issues were within the scope of the ICC jurisdiction. Similarly, the District Court determined that Farrel's claims of false representation and unfair competition claims should also be arbitrated because the trademark agreement imposed continuing duties on respondents not to compete in the United States or Canada. In addition, the District Court found that Farrel's deceptive trade practices under Ohio law, patent infringement, and breach of the 1961 agreement (not involved in the Commission's investigation) appear to be arbitrable.

On October 15, 1990, Farrel petitioned for review of the ID. In its petition, Farrel dropped a number of the arguments it made before the ALJ in response to respondents' motion to terminate the investigation.[3] The alleged misappropriation of trade secrets is the only claim which Farrel continued to press. On October 22, 1990, respondents and the IAs filed responses in opposition to Farrel's petition for review.

Arbitration Clauses in Licensing Agreements

Respondent Pomini S.p.A. and Farrel were involved in a business relationship for almost 30 years, from 1957 to 1986. During their relationship, these parties executed several technology and trademark licensing agreements with provisions requiring the parties to arbitrate all disputes that arise in connection with the agreements.[4]

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[3] Farrel no longer contests termination of the investigation as to the trademark infringement and false representation of source claims on the grounds of res judicata. Those claims were found by the District Court to be subject to arbitration. Farrel also does not contest the ALJ's decision to terminate the investigation as to the respondent, Pomini, Inc. even though Pomini, Inc. was not party to the arbitration agreements. Finally, Farrel no longer claims that the Commission's decision to institute the investigation should have prevented the ALJ from terminating the investigation.

[4] The parties' relationship began in 1957 when Farrel's predecessor, Farrel-Birmingham Company, licensed a predecessor of Pomini S.p.A., Soc. Acc. Luigi Pomini, an Italian partnership, to manufacture and sell a variety of rubber and plastic processing machinery that Farrel had designed and developed. The licensing agreements provided for the

(continued...)

In 1963, Farrel and Pomini S.p.A., then named S.p.A. Luigi Pomini, entered into an agreement wherein Farrel licensed S.p.A. Luigi Pomini to manufacture and sell all of Farrel's line of plastics and rubber processing equipment for ten years. The agreement provided that all designs, specifications, drawings, blueprints, photographs, reproductions, and other material furnished to Pomini S.p.A. were to remain the property of Farrel and were to be returned at the termination of the agreement. The agreement also provided that "any dispute" arising out of the licensing agreement "which may at any time arise between the parties hereto during the continuance of [the] agreement, concerning [the] agreement" was subject to arbitration.

In 1973, Farrel and Pomini S.p.A. entered into another agreement to extend Pomini S.p.A.'s right to manufacturer and sell the equipment referenced in the 1963 agreement with continued technical assistance from Farrel. The agreement gave Pomini S.p.A. the exclusive right to manufacture the Farrel equipment in Italy, and provided Pomini S.p.A. with the non-exclusive right to sell the subject equipment throughout the world except in the United States, the United Kingdom, and Japan. The agreement contained the following provision for the arbitration of disputes:

> All disputes arising in connection with the present Agreement shall be finally settled by

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[4](...continued)
arbitration of "any dispute which may at any time between the parties hereto during the continuance of [the] agreement, concerning [the] agreement, and which dispute the parties fail to adjust between themselves...."

> arbitration. Arbitration shall be conducted in Geneva, Switzerland, in accordance with the rules of arbitration of the International Chamber of Commerce.

A trademark license agreement executed at the same time provided Pomini S.p.A. with permission to use the Farrel trademark to identify the subject equipment in "all countries of the world except North America." The trademark agreement contained an arbitration clause similar to the clause in the technology license agreement.[5] It also provided that the agreement was to continue in force "no longer than the said License and Technical Assistance Agreement between the parties." In 1976, the technology license agreement was amended, extending the period of the agreement for ten years from January 1, 1976, i.e., until January 1, 1986. The 1973 technology license and trademark license agreements, as amended, expired on January 1, 1986.[6]

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[5] The arbitration clause states as follows:

> All disputes arising in connection with this Agreement shall be finally settled in Geneva, Switzerland under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with its Rules.

[6] In March of 1986, Pomini, Inc. was incorporated in Delaware as a wholly-owned subsidiary of Pomini S.p.A. to act as a marketing agent for Pomini S.p.A. in the United States and Canada.

DISCUSSION

1. Applicability of the Commission's holding in Fluidized Beds and the Supreme Court's Decision in Mitsubishi Motors to the termination of the investigation

The applicable precedent which compels termination of the investigation in this case is the Commission's 1985 decision in Certain Fluidized Bed Combustion Systems, Inv. No. 337-TA-213, Commission Memorandum Opinion (1985) (Fluidized Beds), and the Supreme Court's holding in Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985).

In Fluidized Beds, the Commission was confronted an arbitration clause* much like that contained in the licensing agreements entered into by the parties in this case.[7] The Commission determined to terminate the investigation and give effect to the arbitration clause contained in the international contractual agreement entered into by the parties. The policy rationale at the core of the holding in Fluidized Beds is derived from the Supreme Court's decision in Mitsubishi Motors, viz., that a party to an international transaction will be required to

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* As in original.

[7] The Fluidized Beds arbitration agreement provided as follows:

> All disputes and controversies arising in connection with this Agreement which the parties are unable to adjust between themselves shall be finally settled by arbitration conducted in English under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed according to said Rules in force at the time.

honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims. Mitsubishi Motors, 473 U.S. at 628. In so holding, the Supreme Court reaffirmed not only the "liberal federal policy favoring arbitration agreements," but also the importance of enforcing arbitration agreements made in the course of international commerce. Id.

Much of the Commission's analysis in Fluidized Beds involved application of the two factors set forth by the Supreme Court's decision in Mitsubishi Motors for determining whether to give effect to an arbitration clause.[8] The Commission applied the first Mitsubishi Motors factor (whether the parties' agreement to arbitrate reach the cause of action) and held that the arbitration agreement covered the cause of action at issue. It noted that the underlying claims of patent infringement, misappropriation of trade secrets, and fraudulent inducement are "inextricably connected to the license agreement." Fluidized Beds at 5. In addition, the Commission found that the agreement provides for only one type of proceeding, viz., arbitration, and for only one forum, viz., the ICC. (Id. at 5).

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[8] These two factors are as follows:

> First: does the parties' agreement to arbitrate reach the cause of action with any doubts to be resolved in favor of arbitrability?
>
> Second: are there any legal constraints external to the parties' agreement which foreclose arbitration?

The second Mitsubishi Motors factor involves the determination of whether there are considerations external to the arbitration agreement that could forestall arbitration. The Commission noted that the Supreme Court had stressed that this factor was satisfied "so long as the prospective litigant effectively may vindicate its statutory cause of action in the arbitral forum." Mitsubishi Motors, at 5076. We indicated that the public interest in section 337 investigations was protected where private parties can vindicate their section 337 claim in the arbitral forum. We noted that "the [ICC] arbitration panel can issue a cease and desist order precluding importation," which was viewed as "the functional equivalent of a limited exclusion order obtained from the Commission." Id. at 8. Finally, the Commission stated that "public policy considerations with regard to any award of relief from the arbitration panel can be raised in any enforcement proceedings before a Federal district court." Id.[9]

The Commission in Fluidized Beds declined to initiate an independent section 337 action as requested by complainant. It noted that although it "has discretion" to initiate such a proceeding, it was declining to do so because of "policy considerations," i.e., the fact that complainant had entered into the arbitration agreement,

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[9] The Commission also noted Fluidized Beds that another important policy consideration favoring arbitration was enhancing the validity and effect of a private international business transaction. Fluidized Beds at 7. The Commission recognized that the "concerns for international comity, respect for the capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial systems for predictability in the resolution of disputes" weighed heavily in favor of giving effect to the arbitration agreement. Id. 6-7.

and had chosen a forum from which reasonably expeditious relief was available.

We reaffirm the holding in Fluidized Beds which requires the termination of the present investigation. The policy concerns enunciated in Fluidized Beds remain applicable today: concern for international comity, respect for capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial system for the predictability in the resolution of disputes.

Nor is there any factual distinction between this case and Fluidized Beds which would justify ignoring those policy considerations. As in Fluidized Beds, the arbitration clause in this case is mandatory, covers all disputes, and involves an international agreement. In addition, Farrel's claim of trade secret misappropriation is "inextricably connected to the license agreement." Fluidized Beds at 5. Thus, under the first Mitsubishi Motors test there is little doubt that the licensing agreement applies to Farrel's trade secret claim.

Under the second Mitsubishi Motors test, Farrel has not been able to demonstrate any legal constraints external to the parties' agreement which foreclose arbitration. As in Fluidized Beds, complainant here has the opportunity to vindicate its section 337 rights in an arbitration, including the right to bring an action in federal district court for preliminary injunctive relief upon initiating an arbitration proceeding. Similarly, Farrel, like the complainant in Fluidized Beds, can enforce any arbitration judgment against the respondents in federal district court at the conclusion of the arbitration proceedings.

Farrel has raised several arguments which it claims provide "legal constraints" which foreclose arbitration. We discuss these arguments below.

a. Farrel's arguments regarding expeditious relief

Farrel argues that the facts of this investigation create different legal constraints than existed in Fluidized Beds because here it cannot vindicate its section 337 rights through an arbitrator as "there are no assurances that relief expeditious enough to be effective would be available," and respondents are currently importing competing goods into the United States. (Farrel Memorandum at 38-39).

The sense of urgency arising from the alleged importation of respondents' products as presented in Farrel's petition is belied by Farrel's failure to move the Commission for temporary relief.[10] Moreover, were Farrel to initiate arbitration proceedings immediately, it would have the right under ICC rules to petition a federal district court for preliminary relief to stop respondents' imports.[11] Indeed, if everything Farrel alleges proves to be true, it may receive broader permanent injunctive relief from an arbitrator than it could from the Commission, viz., a bar on the manufacture of the goods in Italy and

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10 19 CFR § 210.24(e).

11 Article 8, ¶ 5 of the ICC Rules of Conciliation and Arbitration. There is no evidence that Farrel has taken any steps to initiate ICC arbitration proceedings pursuant to the decision of the District Court or to seek any preliminary injunctive relief regarding the "preliminary discovery" evidence it alleges it has obtained in discovery in the Commission investigation.

their sale in any market. In Fluidized Beds, the Commission stressed that the ability to obtain injunctive relief under ICC rules provided considerable protection to the complainant and a strong policy basis for terminating the investigation in favor of an arbitral forum. Fluidized Beds at 6-7. These same considerations apply in this case.

b. Farrel's arguments concerning the alleged waiver by respondents of their right to arbitrate the trade secret claim

Farrel also seeks to distinguish Fluidized Beds by asserting that respondents' alleged waiver of their arbitration rights eliminates the policy considerations favoring arbitration in Fluidized Beds. Farrel's argument is not persuasive. First, as discussed in greater detail below, the District Court held that Farrel did not establish that a waiver of respondents' right to arbitrate had taken place. Moreover, the District Court held that even if a waiver did occur in Italy, Farrel had failed to establish that such a waiver was legally binding on United States courts.

Second, strong policy considerations require that all disputed issues be resolved in one arbitration. The District Court ordered that the arbitrability of Farrel's claims of patent and trademark infringement, unfair competition, and misrepresentation should be determined by an ICC arbitrator. In its petition for review of the ID, Farrel contends only that the investigation should continue as to trade secrets, dropping its arguments that the trademark infringement and false representation claims should be continued. However, there is no question that the trade secret claim is inextricably connected to the other claims now subject to arbitration pursuant to the

District Court's order. Nor is there any doubt that all of the underlying claims (patent and trademark infringement, false representation, and misappropriation of trade secrets) "are inextricably connected to the license agreement." Fluidized Beds at 5. Under these circumstances, it is certainly more efficient for the parties to resolve all of the disputed claims in one arbitration. Piecemeal litigation is not to be encouraged. These factors, in addition to the strong policy favoring arbitration outlined in Fluidized Beds and Mitsubishi Motors, lead us to conclude that the investigation should be terminated.

2. **The collateral estoppel effect of the District Court decision on Farrel's claim of trade secret violation**[12]

As discussed previously, the District Court explicitly decided that the licensing agreements containing the arbitration clauses compelled dismissal of the court case so that the parties' dispute could be heard by an ICC arbitrator. Moreover, the District Court, as noted, rejected Farrel's arguments that respondents had waived their rights to arbitrate the claims because of respondents' participation in litigation in Scotland and Italy.

The doctrine of res judicata is based on the notion that there must be limitations on a party's opportunities to litigate in a second action those claims or issues litigated, or which could have been litigated, in a prior action. Thus, the doctrine encompasses two rules -- claim

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[12] Our holding with respect to the collateral estoppel effect of the District Court decision is an independent and separate basis to terminate the investigation apart from our holding under the principles of Fluidized Beds and Mitsubishi Motors.

preclusion, or "true" res judicata, and issue preclusion, or collateral estoppel. Claim preclusion prevents parties from relitigating claims that were raised, or could have been raised, in a previous court proceeding. If a valid and final judgment has been entered on a claim, a second action based on the transactional facts involved in the first action is precluded.[13] Collateral estoppel, or "issue preclusion," requires that if an issue of fact or law was actually litigated and determined by a valid and final judgment, the determination of that issue is conclusive in a subsequent action between the parties, whether on the same or a different claim. See Young Engineers. Inc. v. U.S.I.T.C., 721 F.2d 1305, 1315 (Fed Cir. 1983).

Farrel argues that because the District Court's decision was not on the merits of the trademark or patent infringement claims, but instead determined only that the ICC should determine the arbitrability of those issues, that res judicata and collateral estoppel do not apply. Farrel also asserts that res judicata and collateral estoppel do not apply because the misappropriation of trade secrets claim was not before the District Court. Finally, Farrel argues that the District Court decision was based on the court's obligation under the Federal Arbitration Act, a federal

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[13] Generally, this principle rests on the assumption that all forms of relief could have been requested in the first action:

> In general, a final judgment on the merits of a claim (i.e., cause of action) precludes the same plaintiff from bringing against the same defendant a subsequent action on the same claim, or any part of the claim that was, or reasonably could have been, brought in the initial action.

Alyeska Pipeline Service Co. v. United States, 688 F.2d 765, 769 (Ct.Cl. 1982).

statute which Farrel claims applies only to "courts," not to the Commission. None of these arguments are persuasive.

a. Farrel's argument that collateral estoppel is not applicable because of the preliminary nature of District Court decision

Farrel's argument that the District Court's opinion does not operate as collateral estoppel on the Commission's investigation because it dealt only with a "preliminary" matter is without merit. Courts have held that a decision by one court on a preliminary matter such as jurisdiction or the arbitrability of particular issues precludes relitigation of those matters before a second court. Manes Organization Inc. v. Standard Dyeing and Finishing Co., 472 F. Supp. 687, 692 (S.D.N.Y. 1979) (prior state court order compelling arbitration was res judicata in federal court action). See also Todd Shipyards Corp. v. Marine Vessel Leasing Corp., 456 F. Supp. 1384 (C.D. Calif. 1978); Wright, The Law of Federal Courts, 4th ed. 682 (1983).[14]

In addition, the Federal Circuit has held that the doctrine of res judicata applies to a section 337 action when the subject matter giving rise to the section 337 claim has been previously litigated in federal court.

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[14] Farrel is reported to have filed a notice of appeal of the District Court decision to the U.S. Court of Appeals for the Federal Circuit. See Respondents' Memorandum at 34. Thus, it would appear that the District Court's judgment is "final" at least for appeal purposes. Moreover, as we note in note 19 infra, the Restatement (Second) of Judgments indicates that a judgment is final for the purposes of "issue" preclusion if it is based on a decision that the court lacked jurisdiction or some other preliminary matter which does not reach the merits.

Young Engineers, 721 F.2d at 1315. The Federal Circuit in Young Engineers rejected the argument, raised by Farrel in this case, that the unique remedy provided for in section 337 actions prevents application of the res judicata doctrine. The Federal Circuit took a more pragmatic approach and ruled that res judicata applies to Commission proceedings, noting that "the evils of vexacious [sic] litigation and waste of resources are no less serious because the second proceeding is before an administrative tribunal."[15] 721 F.2d at 1315.

b. The applicability of collateral estoppel or issue preclusion to Farrel's arguments regarding the arbitrability of the trade secrets claim

Farrel also argues that collateral estoppel does not apply to the issue of the arbitrability of its trade secret claim because that claim was not before the District Court. However, we find that continuation of Farrel's trade secret misappropriation claim before the Commission is barred by the doctrine of "issue preclusion" or collateral estoppel.

As noted previously, collateral estoppel prevents the relitigation of issues actually litigated and decided in an earlier proceeding, whether on same or a different

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[15] In Young Engineers, the court found res judicata principles generally applicable to section 337 proceedings. Although the court was dealing with "claim preclusion" in Young Engineers, there is no reason not to apply the same reasoning to collateral estoppel or "issue preclusion" as well.

claim.[16] The Restatement (Second) of Judgments § 27 provides the general rule:

> When an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.

In determining whether an issue raised in an earlier proceeding is precluded from being raised in a second proceeding, the Restatement (Second) of Judgments states that the following questions are appropriate:

> Is there a substantial overlap between the evidence or argument to be advanced in the second proceeding and that advanced in the first? Does the new evidence or argument involve application of the same rule of law as that involved in the prior proceeding? Could pretrial preparation and discovery relating to the matter presented in the first action reasonably be expected to have embraced the matter sought to be presented in the second? How closely related are the claims involved in the two proceedings?[17]

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16 Restatement (Second) of Judgments § 27 (emphasis supplied). The Restatement definition of collateral estoppel is substantially similar in language and identical in effect to that adopted by the Supreme Court. See Allen v. McCurry, 449 U.S. 90, 94 (1980)

17 Restatement (Second) of Judgments § 27, comment c (1982)

Application of these principles demonstrates that the District Court decision on issues of arbitrability has a collateral estoppel effect on the same issues involving Farrel's trade secret claim before the Commission.

The District Court conducted a detailed analysis of the issues of arbitrability of Farrel's claims. In determining that Farrel and Pomini should arbitrate their dispute, the District Court first held that the agreements to arbitrate disputes arising out of the parties' licensing agreements survived the termination of the licensing arrangement. In the District Court's view, a contrary decision "would render arbitration agreements virtually meaningless, and would defeat the parties' intent that their disputes be resolved according to an agreed procedure." District Court Opinion at 21, citing Hilti, Inc. v. Oldach, 392 F.2d 368 (1st Cir. 1968). With respect to all of the claims before it -- patent and trademark infringement, false representation, breach of contract, and unfair competition -- the District Court held that the various licensing agreements imposed a continuing obligation on respondents to refrain from taking certain actions. An essential part of the District Court's decision to compel arbitration for each of the claims was based on these "continuing obligations."

We find a "substantial overlap" between the evidence and argument advanced by Farrel before the District Court and that presented before the Commission regarding Farrel's trade secret claims. This overlap is demonstrated by the District Court's treatment of the issue of the arbitrability of the patent infringement claims. Patents and trade secrets are covered in the same paragraphs of the parties' agreements -- the same geographic and time restrictions and arbitration provisions

apply to both the patents and the trade secrets.[18] Moreover, both claims involve similar factual circumstances, licensing agreements, products, machinery, construction, and design issues, among others. In short, they are "closely related" claims. Restatement (Second) of Judgments, § 27, comment c. In determining that the patent infringement claims should be sent to arbitration, the District Court relied on a portion of the Farrel Pomini license agreement that provided:

> (a)ll designs, specifications, drawings, photographs, reproductions, and other material furnished to Pomini hereunder, and under the Agreement of March 22, 1963, shall remain the property of Farrel and shall be returned at the termination of this Agreement. Pomini shall not at any time in any way or manner whatsoever make known, divulge or communicate any of the drawings, specifications, designs and other data in particular, supplied to them by Farrel or acquired by Pomini from any sources whatsoever relating to the manufacture of the machinery covered by this agreement or any part thereof of any person, firm or company except as hereinafter mentioned, and Pomini will take all proper precautions to prevent any information concerning the same being acquired by any unauthorized person, firm or company.

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18 The misappropriation of trade secrets claim in this action involves a claim that Respondents have wrongfully retained and utilized trade secrets initially received by them in a confidential relationship. Specifically, Farrel's trade secret allegations are based on the failure of Pomini to return the designs, specifications, drawings, photographs, reproductions and other material furnished to Pomini.

District court opinion at 29-30. The District Court held that Farrel's patent claims against respondent Pomini amount to "an assertion that Pomini has violated the geographical, durational and 'return' provisions of the agreement", and that such a dispute is one that arises in connection with the agreement and is therefore arbitrable. Id.

Precisely the same analysis is applicable to Farrel's trade secret claims. Farrel relies on the same paragraph of the 1973 licensing agreement quoted above in alleging trade secret misappropriation in its complaint before the Commission. Farrel's complaint also alleges that respondents failed to comply with their continuing obligations under the termination provisions of the licensing agreements, including to "cease using Farrel's patents, trademarks or technical information."[19] The District Court's findings regarding the issues of interpretation of the licensing agreements (including its "continuing obligation" discussion), and its finding that the arbitration agreement survived the termination of the parties relationship, encompass "all disputes"[20] of the parties. The District Court did not have occasion to apply this analysis to Farrel's trade secret claims simply because Farrel chose not to include that claim in the Ohio

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19 Complaint ¶ 26.

20 The District Court's Opinion was premised primarily on the 1973 arbitration clause which provided for the resolution of "all disputes arising in connection with the present Agreement. ... District Court Opinion at 6.

proceedings.[21] However, given the District Court's general findings and consistent application of these findings to all of the claims before it, as well as the "substantial overlap" of evidence and fact regarding the issue of the arbitrability, we find that the "issue" of trade secret arbitrability before the Commission is precluded under collateral estoppel.[22]

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21 Farrel has never contended that anything prevented it from bringing its trade secret claims before the District Court. This decision appears to have been merely tactical.

22 We decline to hold, as asserted by respondents and the Investigating Attorneys, that the District Court decision has a res judicata or "claim" preclusive effect on the trade secret claim. In our view, the decision of the District Court does not meet the requirement of "finality" for claim preclusion sufficient to meet the criteria set forth in Restatement (Second) of Judgments §§ 13, 19, and 24. However, the District Court decision is "final" for the purposes of "issue" preclusion. Section 13 of the Restatement states as follows:

> A judgment may be final for purposes of res judicata although it embodies an adjudication that does not bar the plaintiff from maintaining another action against the defendant on the same claim. In such a case, there may be issue preclusion in another action between the parties on the same or a different claim as to issues that were decided as a basis for judgment. (citations omitted). Examples of judgments that do not bar another action on the same claim are those resulting from a decision that the court lab jurisdiction over the subject matter of the action or over the defendant, or from certain voluntary or involuntary dismissals of an action. (emphasis supplied).

c. Applicability of collateral estoppel to Farrel's assertion that respondents waived their right to arbitrate the trade secret claim

Farrel argues that respondents have "abandoned" their arbitration defense in the Italian litigation by agreeing to the appointment of an expert to receive evidence and issue a report concerning, inter alia, Farrel's trade secret claim. It asserts that the "issue" of waiver of arbitrability is not subject to any collateral estoppel effects from the District Court opinion because it alleges that the District Court did not have before it records from the foreign court cases demonstrating the similarity of issues and facts, and thus waiver. (Farrel Memorandum at 43-44).

Applying the collateral estoppel rules discussed previously, we hold that the District Court decision has a collateral estoppel or "issue" preclusive effect on the issue of waiver of arbitrability again raised by Farrel in the instant proceeding.

Farrel argued before the District Court that respondents had waived their right to arbitrate the patent and trademark infringement and other claims before the District Court by allegedly contesting the merits of those claims in civil litigation in Italy and Scotland. The District Court found Farrel's waiver argument "unpersuasive" for the following reasons:

> First, Farrel asserts that it has expended resources litigating in this forum. The law of this circuit is clear, however, that litigation concerning arbitrability is insufficient to establish waiver by the party seeking arbitration. More importantly, Farrel

> has not demonstrated the relevance of litigation in Scotland and Italy. Without the records of those cases, this Court has no basis for concluding that they involve the same contracts and similar disputes. Further, even if they do, Farrel cites no authority for the proposition that failure to assert arbitration rights in one lawsuit constitutes waiver of such rights in a different lawsuit, especially one taking place in a different country.

(District Court Opinion at 32-33.)

Thus, the District Court dealt directly with the main issue raised by Farrel here, i.e., whether respondents' actions in defending the Scottish and Italian actions amounted to a waiver of the right to compel arbitration. The District Court explicitly rejected this argument, applying legal principles equally applicable to this proceeding.[23] The District Court first held that Farrel had not demonstrated the "relevance" of the Italian and Scottish proceedings. It then held that "even if" the facts of the Italian action and the District Court action are the same, Farrel cited no cases holding that a failure to assert arbitration rights in one lawsuit constitutes waiver of such rights in a different lawsuit, especially one in a different country. Farrel has cited no such cases either to the ALJ

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[23] To the extent that Farrel's argument regarding waiver is premised upon the fact that trade secret claims were not before the District Court, it is baseless. By definition, collateral estoppel applies when an issue previously decided is raised in a second action on a different claim. Restatement § 27, comment b. In addition, there is no doubt that the trade secret claim is closely related" to the patent and trademark infringement claims involved in the District Court Opinion. Id. at comment c.

or in its petition for review.[24] Moreover, the District Court held that the patent infringement claims directly litigated by respondents in the Scottish proceeding did not result in a waiver of the arbitration clause.

Nor does the alleged "new evidence" of waiver produced by Farrel avoid the collateral estoppel effect of the District Court's decision. Farrel had every opportunity to present to the District Court facts related to the Italian litigation that it now raises before the Commission. Respondents note that the parties to the District Court litigation continued to present new facts to the District Court up to the time it decided the issue in September 1990. Farrel cannot now be heard to complain that the District Court's findings on this issue are deficient - and justify a Commission investigation - because of Farrel's

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[24] Farrel cites Hunt v. BP Exploration Co. [Libya) Ltd., 580 F. Supp. 304 (N.D.Tex. 1984) for the proposition that "where issues arise concerning enforcement of a purported international arbitration agreement, there will be multiple forums which otherwise may have jurisdiction to hear the claim." (Farrel Memorandum at 34). However, we find the facts of Hunt inapposite. In Hunt, the court held that Hunt had waived any right he may have had to arbitration by "engaging strenuously in the judicial resolution of this dispute [in English courts] over a seven-year period, during which Hunt failed to initiate arbitration or advance the arbitration clause as a defense." The court stressed the fact that the arbitration provision asserted by Hunt was optional, not mandatory as found by the District Court in this proceeding. Unlike in Hunt, Farrel concedes that the respondents raised the preliminary defense of arbitration at the outset of the Italian litigation. Furthermore, the District Court found that the arbitration provisions were mandatory, at least to the extent of requiring an ICC arbitrator to determine whether the claims are arbitrable.

own failure to present a more complete defense to the court. In fact, the Restatement (Second) of Judgments §27, comment c suggests that new facts such as those proffered by Farrel do not provide it with protection from the preclusive effect of collateral estoppel:

> Thus, for example, if the party against whom preclusion is sought did in fact litigate an issue of ultimate fact and suffered an adverse determination, new evidentiary facts may not be brought forward to obtain a different determination of that ultimate fact.[25]

3. **The 1973 arbitration agreement did not include an implied right to bring an independent section 337 action**

Farrel argues that it retained the ability to bring a section 337 claim because the law which existed in 1973 at the time of execution of the licensing agreement did not enforce arbitration "of statutory claims when strong public

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[25] Similarly, if a party sought to obtain relief from a judgment or order under Rule 60(b), F.R.Civ.P, it would have to demonstrate, inter alia, that the "newly discovered evidence [was evidence] which by due diligence could not have been discovered in time to move for a new trial under Rule 59(b)." To permit relitigation of this issue before the Commission based on "new evidence" which Farrel had, but did not make available to the District Court, would violate the principles of Rule 60(b), as well as the doctrine of collateral estoppel. If Farrel's evidence was discovered after September 11, 1990 (the date of the District Court's opinion), then if should have moved the court for relief from the judgment based on this new evidence. For Farrel to come to the Commission claiming that the District Court's decision was erroneous because of such "new evidence" suggests forum shopping.

policy interests were at stake." (Farrel Memorandum at 49-51). This argument is also without merit.

Farrel did not retain an implicit right to bring a section 337 action under any of the licensing agreements. Farrel's argument ignores the fact that nothing in the licensing agreements provides any exception for any dispute to be settled other than by arbitration. In fact, the 1973 arbitration agreement provides that Connecticut and U.S. law will govern. In 1973, federal substantive law controlled the enforceability of arbitration agreements, see e.g., Prima Paint Corp. v. Flood & Conklin Mfg. Co., 388 U.S. 395, 400-404 (1967), and required that the parties' contractual choice of forum be enforced in the context of international transactions. See The Bremen v. Zapata Off-Shore Co., 417 U.S. 1, 9-14 (1972).

More importantly, the Supreme Court's Mitsubishi Motors decision suggests that arbitration agreements should not be interpreted in light of the law which existed at the time the contract was entered. In Mitsubishi Motors, the Supreme Court found that the parties' 1979 agreement to arbitrate "[a]ll disputes, controversies or differences" required arbitration of one party's antitrust claim, notwithstanding [earlier precedent holding that arbitration was not required]." Mitsubishi Motors, 473 U.S. at 628-29. Thus, the Supreme Court determined that the parties must be held to the explicit terms of their bargain, without regard to the state of the law at the time they entered into the agreement. Id. at 640.

In addition, even if 1973 law is applied, as Farrel urges, none of the pre-1973 cases cited by Farrel provides that arbitration of unfair trade practices is precluded on public policy grounds. Farrel cites no case, statute, or

regulation which requires such a result. Moreover, no Commission decision provides support for Farrel's argument that 1973 law and practice was to ignore the clear language of an arbitration clause requiring arbitration of "all disputes." Indeed, the Commission decision in Fluidized Beds suggests that the public policy interests in 1985 as well as in 1973 required arbitration of disputes in the face of an international agreement to arbitrate.[26]

4. **Farrel's argument that Fluidized Beds should be overruled**

Farrel argues that Fluidized Beds should be reversed for several reasons. Citing the dissenting opinion of Commissioner Rohr, it asserts that the "in addition to any other provision of law" language of section 337(a)(1) means that complainants should be able to avail themselves of the unique remedies and procedures of section 337 regardless of the existence of court decisions concerning the same facts and issues. (Farrel Memorandum at 53). Farrel also asserts that the

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[26] Farrel's argument also contradicts the original intention of the parties as reflected in the unambiguous language of arbitration clause. Farrel's implied exception for section 337 cases would make the arbitration clause in the licensing agreement meaningless under certain circumstances. Connecticut law provides that "every provision [in an agreement] must be given effect if reasonably possible" because "parties generally do not insert meaningless provisions in their agreements." A.M. Larson Co. v. Lawlor Ins. Agency, Inc., 220 A.2d 32 (1966). See also Restatement (Second) of Contracts § 203(a) ("an interpretation which gives a reasonable, lawful, and effective meaning to all the terms is preferred to an interpretation which leaves a part unreasonable, unlawful, or of no effect.").

Mitsubishi Motors decision is not binding on the Commission because it did not hold that an agency investigation under section 337 should be referred to arbitration in international contexts. Id. at 55. Finally, Farrel states that Fluidized Beds should be overturned because section 337 rights cannot be effectively vindicated in arbitration proceedings. Id. at 56.

We believe that Fluidized Beds was correctly decided. Farrel has not demonstrated any new policy concerns not addressed in the Fluidized Beds decision that would suggest a need to overrule the decision. Nor has Farrel cited to any change in federal or state statutory or regulatory law or judicial decisions requiring that the Fluidized Bed rule be altered or discarded. The reasoning relied upon by the Commission in Fluidized Beds remains viable today, as its application to the instant investigation demonstrates. Accordingly, we find no valid basis to overturn Fluidized Beds.

5. **Farrel's request that the Commission self-initiate an investigation into respondents' alleged violations of section 337**

Farrel's final argument is a request that the Commission self-initiate an investigation relying on evidence of respondents' alleged violations of section 337. Farrel asserts that self-initiation is necessary because it is seriously and irreparably injured by respondents' violations of section 337. Farrel also argues that the public interests will be protected by the Commission's self-initiation.

The issue of self-initiation in the context of a valid arbitration agreement was dealt with directly by the Commission in Fluidized Beds. There the Commission

refused to exercise its authority to institute an investigation, holding as follows:

> Although the Commission has the authority to institute an investigation on its own initiative, we decline to take that action in this investigation because of policy considerations. [Complainant] entered into an arbitration agreement and chose a forum. Reasonably expeditious relief is available from that forum. The Supreme Court has emphasized the importance of the public policy served by recognizing and enforcing such agreements. For the Commission to initiate an investigation would be to defeat that policy.

Fluidized Beds at 10-11. We adopt this reasoning as equally responsive to Farrel's request for self-initiation in this investigation.

Farrel seeks to distinguish the holding in Fluidized Beds, arguing that it is faced with serious injury due to respondents' unfair imports. Farrel asserts that preliminary discovery has produced (1) "unequivocal evidence" that respondents are unlawfully using Farrel's trade secret technology and importing articles embodying those trade secrets into the United States, and (2) evidence that Farrel is being "seriously and irreparable injured by the importation of respondents' internal mixing devices and components thereof." (Farrel's Memorandum at 58).

As we have discussed previously, Farrel has made no attempt to seek temporary relief from the Commission or a federal district court based on this preliminary discovery evidence. If this evidence is as strong as Farrel

claims, then it should be able to obtain a preliminary injunction in federal district court pursuant to F.R.Civ.P. 65. Farrel can seek to obtain such an injunction in connection with arbitration proceedings. However, the record of the Commission investigation does not justify self-initiation of a Commission investigation given the arbitration clause and the decision of the District Court.

Conclusion

For all of the forgoing reasons, the above-captioned investigation is terminated.

DISSENTING VIEWS OF COMMISSIONER DAVID B. ROHR

The issue before the Commission in this review of the initial determination (ID) is whether to terminate its section 337 investigation involving certain internal mixing devices and components thereof in light of the District Court's order compelling arbitration between the named parties Farrel Corporation (complainant) and Pomini S.p.A. and Pomini, Inc. (respondents) to the Commission's investigation. The Commission majority in this investigation relies on the Commission's 1985 decision in Fluidized Beds. As I stated in my decision in Certain Fluidized Bed Combustion Systems, Inv. No. 337-TA-213, Dissenting Views of Commissioner Rohr, on this issue I must disagree with my colleagues both as a matter of law and of policy. I continue to believe that a correct analysis of the issue before the Commission compels continuation of this investigation.

I therefore determine that this investigation should not be terminated. In Fluidized Beds, the Commission majority erroneously lent greater deference to a arbitral tribunal than it would to a United States District Court. The Commission majority in Fluidized Beds adopted an unreasonably broad view of the U.S. Supreme Court's holding in Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985), which I find to be entirely inapplicable to proceedings under section 337. I continue to believe, as I did in Fluidized Beds, that the Commission does not have the authority to suspend or terminate this investigation. Finally, there is no overriding public policy reason for the Commission to terminate this investigation.

In my dissenting view in Fluidized Beds, I detailed my reasons for believing that Commission should continue its section 337 investigation despite concurrent arbitration proceedings. These views are equally applicable to the circumstances of the present investigation. Rather than repeat them, I will summarize here.

The explicit language of section 337(a) and the Commission's longstanding interpretation of that language make it inappropriate for the Commission to terminate this investigation. The stature provides that its violation "shall be dealt with, in addition to any other provision of law..."[1] This "in addition to" language has been the basis for section 337 investigations proceeding concurrently with District Court Actions.[2] By terminating this investigation, the Commission majority is giving greater deference to an arbitral tribunal than it would to a U.S. District Court. I find this conclusion to be untenable.

The Commission majority's reliance on Mitsubishi Motors is clearly inappropriate in the present case. Mitsubishi Motors adopted a limited exception to the principle that antitrust claims are not capable of arbitration. The Court in Mitsubishi Motors was not dealing with a statue that authorized concurrent proceedings. Secondly, Mitsubishi Motors involved a private suit between two parties. In contrast, Section 337 does not involve a private cause of action and the Commission may fashion whatever relief is dictated by the

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1 Section 337(a) of the Tariff Act of 1930; 19 U.S.C. § 1337(a) (1981).

2 Diversified Products Corp. et al. v. Weslo Design Int'l. Inc. (IV Act 81-119 (D. De. 1985)).

paramount considerations of the public interest.[3] Furthermore, deferring this action to arbitration will affect the substantive rights of complainant, especially its ability to obtain an exclusion order. By contrast, in granting arbitration in Mitsubishi Motors, the Supreme Court did not affect the substantive rights of the parties.

Furthermore, the Commission does not have authority to terminate a section 337 proceeding absent a settlement or consent agreement by the parties.[4] Neither of these circumstances is applicable to the current dispute.

Finally, there is no overriding public policy that compels the Commission to defer the case to arbitration. Arbitration cannot effectively vindicate the complainant's section 337 rights. The timing of relief to complainant through arbitration will likely only be available to complainant far beyond the strictly enforced time limitations of section 337.

I therefore determine that this investigation should not be terminated.

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3 "The Committee feels that the public interest must be paramount in the administration of this statute" S.Rep. 93-1298 (November 26, 1974) at 193.

4 Commission rule 210.51.

CERTAIN INTERNAL MIXING DEVICES
AND COMPONENTS THEREOF 337-TA-317

CERTIFICATE OF SERVICE

I, Kenneth R. Mason, hereby certify that the attached NOTICE OF COMMISSION TO REVIEW AN INITIAL DETERMINATION OF NO VIOLATION AND ISSUANCE OF COMMISSION OPINION was served upon Linda C. Odom, Esq. and Kent R. Stevens, Esq. and the following parties via first class mail, and air mail where necessary on November 5, 1990.

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U.S. International Trade Commission
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APPENDIX C

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

FARREL CORPORATION,	)	CIVIL ACTION
	)	NO. C88-2161A
Plaintiff,	)	
	)	
vs.	)	MEMORANDUM
	)	AND ORDER
POMINI, INC., et al,	)	
	)	
Defendants.	)	

ALDRICH, J.

Farrel Corporation, a Delaware corporation based in Connecticut, brings this action against Pomini, Inc., of Akron, Ohio, and Pomini Farrel S.p.A., of Castellanza, Italy, claiming patent and trademark infringement and breach of contract. Farrel seeks various forms of injunctive relief, trebled compensatory damages, and punitive damages. Jurisdiction is based on 15 U.S.C. §1121 and 28 U.S.C. §1338(a).

Pending is Pomini, Inc. and Pomini Farrel's motion to stay proceedings and to compel arbitration, which Farrel opposes. Discovery in the case in chief has been stayed, with discovery permitted solely on the issue of arbitrability. Also pending are various sanctions motions concerning this preliminary discovery: (1) by Farrel against Pomini, Inc.; (2) by Pomini, Inc. against Farrel; (3) by Farrel against Pomini Farrel. All of these motions are opposed. For the following reasons, the motion to

stay proceedings and to compel arbitration is granted, and the motions for sanctions are denied.

I.

The relevant facts are as follows. Farrel Corporation, based in Ansonia, Connecticut, makes metal machinery used in the production of, inter alia, a wide variety of plastics, pigments, composite material and rubber products, including the electrical instrumentation and apparatus for these machines. It also sells design and engineering services for equipment used in these processes. Starting in 1957, Farrel, then named Farrel-Birmingham Company, licensed Pomini Farrel S.p.A., then named Soc.Acc. Luigi Pomini, to use its patented technology and its trademarks in Italy. The license agreement contained the following language concerning post-termination obligations:

> . . . Pomini agrees not to manufacture or sell the machinery or parts thereof which are covered by this agreement or competitive machinery for a period of five years from the termination date.

Brief in support of motion to stay, Ex. A at ¶17. The license agreement also contained the following language concerning the resolution of disputes:

> It is hereby agreed that any dispute which may at any time arise between the parties hereto during the continuance of this agreement, concerning this agreement, and which dispute the parties fail to adjust

> between themselves shall be submitted to . . . arbitration.

Id. at ¶20. The arbitration clause provides for arbitration in the United States, under the laws of Connecticut and the United States, with the president of the International Chamber of Commerce in Paris designated to resolve any deadlock in the selection of arbitrators.

The 1957 license agreement was succeeded by a similar agreement in 1963 between Farrel-Birmingham and S.p.A. Luigi Pomini. The 1963 agreement contained the following language concerning post-termination conduct:

> . . . Pomini agrees not to manufacture or sell any machinery or repair or spare parts which utilize or incorporate in any way any of the property described in . . . this agreement, unless such property should become valueless through no fault of Pomini.

Brief in support of motion to stay, Ex. B at ¶18. In its paragraph 21, the 1963 agreement contained essentially the same arbitration clause as the one in the 1957 agreement.

In 1961, between the 1957 agreement and its 1963 renewal, and notwithstanding that the 1963 agreement purports to bind S.p.A. Luigi Pomini and Farrel-Birmingham, individual partners of S.A.S. Luigi Pomini and the Farrel-Birmingham Co. entered into a "Preliminary Agreement." Motion to suppl. motion to stay, Ex. A. The 1961 agreement sets forth the parties' plans to create, by 1962, id. at ¶6, a joint corporate venture

named "Pomini-Farrel" to manufacture machinery under the Farrel license. This machinery would be marked with a new trademark -- Farrel-Pomini (enclosed in a shield). Id. at ¶19. The agreement notes that amendments and modifications would be made as necessary, id. at 3, and contains no arbitration clause or termination provisions. In particular, it contains no provision stating explicitly whether use of the corporate name and/or trademark are to be discontinued upon termination of the license agreement. The record before this Court does not make clear whether this venture was consummated after the 1963 agreement was signed, having simply been delayed, or whether the Italian company took the name Pomini Farrel S.p.A. without fulfilling all of the conditions set forth in the 1961 agreement.

Farrel contends, and the Pominis do not dispute, that United States Letters Patent Nos. 3,570,820 and 3,610,585 were issued to Farrel on March 16, 1971 and October 5, 1971, respectively, and that Farrel remains the legal owner of these patents. Complaint ¶30 and Ex. D, E. Patent No. 3,570,820 protects a "Banbury-type mixer dust stop." Patent No. 3,610,585 protects a mixing chamber with blade rotors for mixing plastics.

The 1963 license agreement was succeeded in 1973 by an agreement signed by Pomini Farrel S.p.a. and Farrel Company, which had become a division of USM Corporation. Brief in support of motion to stay, Ex. C. This agreement describes Farrel as "[having] acquired and continue(ing] to acquire extensive technical information, designs, patents, trademarks and goodwill relating thereto," id. at 1, and defines the subject "machinery," "equipment" and "products" to include "the complete machine together with all purchased items which go to make the machine a

processing entity." Id. at 1-2. The listed items include, inter alia, mixers and "[a]ny rubber and plastic processing machinery for which Farrel has designs." Id. It specifically mentions Banbury Mixers of various types. Id. at 3.

This agreement granted Pomini an exclusive license to use Farrel's technical information to manufacture in Italy, and a non-exclusive license to use the information for sales and distribution world-wide, with the exception of the United States, the United Kingdom and Japan. Id. at ¶5. Concerning "protection and ownership" of the licensed information, it required that:

> [a]ll designs, specifications, drawings, photographs, reproductions and other material furnished to Pomini hereunder, and under the Agreement of March 22, 1963, shall remain the property of Farrel and shall be returned at the termination of this Agreement. Pomini shall not at any time in any way or manner whatsoever make known, divulge or communicate any of the drawings, specifications, designs and other data in particular, supplied to them by Farrel or acquired by Pomini from any sources whatsoever relating to the manufacture of the machinery covered by this agreement or any part thereof of any person, firm or company except as hereinafter mentioned, and Pomini will take all proper precautions to prevent any information concerning the same being acquired by any unauthorized person, firm or company.

Id. at ¶16 (emphasis added). These restrictions did not apply to Pomini's employees using the information themselves in the manufacturing and sales processes, as permitted under the agreement. Id. at ¶17. Further, the restrictions did not distinguish between trade secret information and patented designs.

This agreement had a ten-year term, and was to continue indefinitely thereafter until either side gave six months prior notice of termination, id. at ¶4, although Farrel was authorized to terminate it earlier if Pomini breached certain of the agreement's terms. Id. at ¶¶22-24.[1] For example, it restricted Pomini from assigning its license rights without Farrel's written consent, and permitted Farrel to terminate the agreement immediately upon any other entity acquiring an interest in Pomini. Id. at ¶33. The arbitration clause, modified from the 1963 agreement, provided as follows:

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[1] It contained the following provision concerning termination by Farrel due to a breach by Pomini:

> . . . Pomini shall not, for a period of ten (10) years from the date of such termination, manufacture or sell any machinery, repair parts or spare parts, which utilize or incorporate in any way any of the property described in . . . this Agreement unless it shall have become public knowledge through no fault of Pomini.

Id. at ¶25. Pomini's argument that the phrase "termination for breach by Pomini" is ambiguous is not persuasive. The phrase follows a listing of events which would constitute "breach[es] by Pomini." In context, a termination under paragraph 25 would be by Pomini.

> All disputes arising in connection with the present Agreement shall be finally settled by arbitration . . . in Geneva, Switzerland, in accordance with the rules of Arbitration of the International Chamber of Commerce.

Id. at ¶28. Concerning applicable law, it provided that it was to "be construed according to the laws of the State of Connecticut and the United States of America." Id. at ¶34.

Referred to and incorporated within the 1973 agreement was a Trademark License Agreement, dated as of September 29, 1972. Brief in support of motion to stay, Ex. D. This agreement permitted Pomini Farrel to use specified Farrel trademarks for identifying equipment manufactured according to the processes licensed in the licensing agreement. It imposed a duty on Pomini Farrel to safeguard the legitimacy of the trademarks and not to compete with Farrel, especially not in the United States

and Canada.[2] In a section captioned "Duration and

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[2] In Section 2, entitled "Grant," the agreement provides:

> a) Farrel herewith grants [Pomini Farrel] non-exclusive permission and Pomini Farrel] undertakes to use the Farrel Trademarks in fall countries of the world except North America] in accordance with the provisions of the (license agreement] to identify only the Farrel Products only so long as the Farrel Products are manufactured by Pomini Farrel] in strict compliance with Farrel Technical information and Farrel's quality standards.
>
> b) [Pomini Farrel] acknowledges Farrel's exclusive right, title and interest in and to the Farrel Trademarks and the validity of the registrations thereof and will not at any time do or cause to be done any act or thing, directly or indirectly, contesting or in any way impairing, or tending to impair any part of Farrel's right, title or interest in the Farrel Trademarks and the goodwill symbolized thereby. In connection with its permitted use of the Farrel Trademarks, [Pomini Farrel] shall not in any manner represent that it has any ownership interest in the Farrel Trademarks or registrations thereof. ...[I]t is agreed, and understood by [Pomini Farrel] that it does not have permission to sublicense the Farrel Trademarks in any manner whatsoever.

1972 Trademark License Agreement, §2 (incorporating the definition of "Territory" from §1(c)) (emphasis added). In Section 3, entitled "Farrel's Control," it provides:

(continued...)

Termination," it provided that:

> Licensee (Pomini S.p.A.) furthermore agrees that it will not adopt, whether during the term of this Agreement, its extension or after termination of this Agreement, any word or symbol which is similar to any of the Farrel Trademarks.

§5(d) (emphasis added). This agreement also contained a clause prohibiting assignments and delegation by either party without prior written consent of the other. §6(a). It contained an arbitration clause similar to, and a term co-extensive with, the licensing agreement,[3] and stated

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[2](...continued)

> [Pomini Farrel] shall identify the Farrel Products only by the applicable Farrel Trademarks and shall not, in any manner whatsoever, use any of the Farrel Trademarks in combination with any of its own marks or any marks of third parties.

Id., Section 3(d).

[3] Concerning arbitration, it contained the following language:

> All disputes arising in connection with this Agreement shall be finally settled in Geneva, Switzerland under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with its Rules. The validity, construction and effect of this Agreement shall be interpreted under the laws of the State of Connecticut.

(continued...)

explicitly that it "set[] forth the entire agreement between the parties pertaining to the Farrel Trademarks and merge[d] all prior discussion between them. §6(h).[4]

The final agreement, effective as of January 1, 1976, was a ten-year renewal of the 1973 agreement, to continue in force thereafter until either party gave six months prior written notice of termination. Brief in support of motion to stay, Ex. E, at ¶3. It made a minor amendment to the provisions of the 1973 agreement pertaining to "machinery," "equipment" and "products," but maintained coverage of "Mixers - Banbury and Continuous Mixers."

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[3](...continued)

§6(d)-(e). Concerning duration, it provided that:

> This Agreement shall continue in force no longer than the said [license agreement] and shall terminate automatically therewith without the necessity of notice by Farrel of any kind.

§5(a).

[4] This section provided further:

> Neither party shall be bound by any conditions, warranties or representations with respect to any of the terms or conditions hereof other than as expressly provided for in this Agreement, and no portion hereof shall be waived and/or modified in any manner except by an instrument in writing signed by a duly authorized officer of each of the parties.

Id. at item 2, page 1-2.[5] The 1976 renewal did not alter the 1973 requirement that Pomini Farrel return licensed designs and specifications upon termination of the license, or the agreement to arbitrate disputes in Geneva, according to the rules of the International Chamber of Commerce ("ICC").

Under the ICC's rules, the Court of Arbitration hears jurisdictional challenges prior to hearing the merits of any dispute referred to it. Brief in support of motion to stay, Ex. F, at art. 8.3-8.4. If the arbitrator makes a prima facie determination of the validity of an agreement to arbitrate a particular dispute in that court, the arbitration may go forward, notwithstanding assertions that the agreement is nonexistent or no longer in force. Id.[6]

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5 It maintained coverage of "the complete machine together will all purchased items which go to make the machine a processing entity." Id. at page 2.

6 Article 8 of the Rules provides in relevant part:

> Should one of the parties raise one or more pleas concerning the existence or validity of the agreement to arbitrate, and should the Court be satisfied of the prima facie existence of such an agreement, the Court may, without prejudice to the admissibility or merits of the plea or pleas, decide that the arbitration shall proceed. In such a case any decIsion as to the arbitrator's jurisdiction shall be taken by the arbitrator himself.
>
> Unless otherwise provided, the arbitrator shall not cease to have jurisdiction by reason of any claim that the contract is null and void or allegation that it is inexistent provided

(continued...)

According to Pomini Farrel, Farrel decided unilaterally in 1979 to cancel the licensing arrangement when the 1976 agreement expired in 1986 and, according to Pomini, ceased providing Pomini with new technology. The parties agree that Farrel terminated Pomini Farrel's license by written notice, dated May 31, 1985 and with an effective date of December 31, 1985.

In March, 1986, Pomini, Inc. was incorporated in Delaware, with its principal place of business in Akron, Ohio, as a wholly-owned subsidiary of Pomini Farrel. According to the Pominis, it was created to act as a marketing agent for Pomini Farrel in the United States and Canada. The relationship between the two companies

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[6](...continued)

> that he upholds the validity of the agreement to arbitrate. He shall continue to have jurisdiction, even though the contract itself may be inexistent or null and void, to determine the respective rights of the parties and to adjudicate upon their claims and pleas.

Article 8: Effect of the agreement to arbitrate, §§ 3-4, ICC Rules of Conciliation and Arbitration (January 1, 1988 edition).

is governed by an agency contract[7] and a management

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[7] Pomini, Inc.'s authority is delimited by the following:

> The authority of the Agent is limited to soliciting [sic] orders from the clients, and to offer [sic] sales assistance to the clients to the best of his ability. The Agent does not have the right to represent the Principal and to directly commit the latter. All invoices are issued by the Principal, and all payments are received by him. It is illegal for the Agent to effect payments and remittances except when previously authorized by the Principal in writing. The Principal has the unconditioned right to accept or refuse business proposals. . . . The [A]gent cannot issue guarantees to any client whatsoever, and his promotional activity shall strictly conform to sales terms and conditions laid down by the Principal. In particular, the Agent must conform to the price list issued by the Principal, and may not in any case increase prices or grant reductions or rebates or different conditions of payment without previous written authorization from the Principal.

Agency Agreement, ¶7, attached as Exhibit B to Pomini, Inc.'s Reply memorandum in support of motion to stay. Pomini, Inc. is expressly forbidden to work for others or to compete with Pomini Farrel during the pendency of the agreement. Id., ¶14. Pomini, Inc. is also required to maintain the confidentiality of Pomini Farrel's proprietary information. The agreement has a three-year term, is governed by Italian law, and provides that disputes are to be resolved by the Judicial Authority of Milan, Italy. This agreement is signed by Franco Cattaneo for Pomini Farrel, and by Gian Piero (John) Marzella for Pomini, Inc.

contract.[8]

Since its incorporation, Pomini, Inc. has continued to be wholly-owned by Pomini Farrel, and Pomini Farrel maintains its own people in key positions. For example, Franco Cattaneo, a resident of Italy, is the president and a director of Pomini, Inc., and the managing director of Pomini Farrel. Renato Rottoli, also a resident of Italy, is a vice president and a director of Pomini, Inc., and the general manager of Pomini Farrel. On the other hand, Tom Knoll, of Akron, Ohio, is the secretary and a director of Pomini, Inc., and has no affiliation with Pomini Farrel. John Marzella, also of Akron, is a vice-president and the treasurer of Pomini, Inc., and likewise holds no position with Pomini Farrel. Cattaneo makes frequent visits to the Akron area, and Pomini, Inc. board of directors' meetings have been held at the Akron offices. Marzella dep. at 23. According to the Pominis, the new corporation has acted solely as Pomini Farrel's United States agent, as required by the agency and management contracts.

Pomini, Inc. was not a signatory to any of the agreements between Farrel and Pomini Farrel S.p.A., and Pomini, Inc. acknowledges that Pomini Farrel has not formally assigned any license rights, based on the prior

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[8] This agreement has a one-year term, with automatic renewal for successive one-year terms until one party gives two months notice of expiration. Management Agreement, ¶6, attached as Exhibit B to Pomini, Inc.'s Reply memorandum in support of motion to stay. It provides that Pomini, Inc. will receive a $10,000 monthly fee for its services. Id., ¶4. It is governed by Italian law, with disputes to be heard in the Court of Busto Arsizio in Varese, Italy. Id., ¶17, 8. This agreement is signed by Renato Viriglio, VP, for Pomini Farrel, and by Giampiero (John) Marzella, VP, for Pomini, Inc.

agreement with Farrel, to the new Pomini. There have been no agreements between Farrel and Pomini, Inc.

In this action, Farrel claims that, since the 1986 termination of the license agreement, the Pominis have, without proper authority, been using Farrel's name and trademarks to further their sale of products and services similar to Farrel's. In its six-count complaint, Farrel claims (1) trademark infringement by both Pominis; (2) false representation in violation of 15 U.S.C. §1125(a) by both Pominis; (3) unfair competition by both Pominis; (4) deceptive trade practices in violation of Ohio law by both Pominis; (5) breach of the 1961 agreement by Pomini Farrel S.p.A.; (6) patent infringement by Pomini Farrel S.p.A. It presents one set of factual allegations in support of the claims against both defendants, and demands injunctive relief and compensatory and punitive damages against both of them.[9]

Neither of the Pominis has filed an answer, moving instead for a stay of these proceedings and an order compelling arbitration of all of the matters addressed in the complaint. They take the position that the 1961 agreement was preliminary in substance as well as title, and does not alter or relieve the arbitration requirement contained in the other, later, agreements. Farrel does not dispute the Pominis' contention that this agreement is the

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[9] Specifically: (1) a preliminary and permanent injunction barring the Pominis from using its name and trademark, or imitations thereof, (2) an order compelling the return of any advertising material using Farrel's name, (3) an order compelling a report of compliance with the injunction, (4) an accounting of profits, (5) treble compensatory damages for patent/trademark infringement, (6) punitive damages, and (7) attorneys fees and costs.

only one between them lacking an arbitration clause and post-termination requirements, and that it expressly contemplated amendments and modifications.

II.

The motion to stay proceedings is governed by the Federal Arbitration Act, 9 U.S.C. §1, et seq., which provides in relevant part:

> If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the Court in which such suit is pending, upon being satisfied that the issue . . . is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.

9 U.S.C. §3. This statute expresses the national policy favoring arbitration of disputes. Steelworkers Trilogy: United Steelworkers v. American Mfg. Co., 363 U.S. 564 (1960); United Steelworkers v. Warrior & Gulf Navigation Co., 363 U.S. 574 (1960); United Steelworkers v. Enterprise Wheel & Car Corp., 363 U.S. 593 (1960).

Title 9, Section 2 provides in relevant part:

> A written provision in a contract evidencing a transaction involving commerce to settle by

> arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, . . . shall be valid, irrevocable and enforceable save upon such grounds as exist at law or in equity for the revocation of any contract.

This section requires that private agreements to arbitrate be recognized and enforced by the federal courts. Perry v. Thomas, ____ U.S. ___, 107 S. Ct. 2520, 2525 (1987); Moses H. Cone Memorial Hospital v. Mercury Construction Corp., 460 U.S. 1, 24 (1983); Southland Corp. v. Keating, 465 U.S. 1 (1984). Such agreements may cover disputes concerning statutory rights, as well as common law claims. Mitsubishi Motors Corp. v. Soler Chrysler Plymouth, Inc., 473 U.S. 614 (1985) (antitrust claims); Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1198 (7th Cir. 1967) (validity of copyright license).

It applies with even greater force in international contexts, where enforcement of agreements to arbitrate furthers a the "orderliness and predictability essential to any international business transaction" by avoiding choice of law disputes and fears of litigation in a hostile forum. Scherk v. Alberto-Culver Co., 417 U.S. 506, 516 (1974); The Bremen v. Zapata Off-Shore Co., 407 U.S. 1, 9 (1972) ("We cannot have trade and commerce in world markets and international waters exclusively on our terms, governed a by our laws, and resolved in our courts.") See also Mitsubishi Motors Corp., 473 U.S. at 629.

Because "arbitration is a matter of contract and a party a cannot be required to submit to arbitration any

dispute which he has not agreed so to submit," Steelworkers v. Warrior & Gulf Nav. Co., 363 U.S. at 582, defining the scope of a arbitration agreement is a matter of contract interpretation for the court presented with a request for enforcement of such a agreement. Atkinson v. Sinclair Refining Co., 370 U.S. 238, 241 (1962); International Union v. Benton Harbor Malleable Industries, 242 F.2d 536 (6th Cir.), cert. denied, 355 U.S. 814 (1957). The statute thus requires development of substantive federal law for interpretation and enforcement of arbitration contracts. Moses H. Cone Memorial Hospital, 460 U.S. at 24, n.32; Goodwin v. Elwns & Co., 730 F.2d 99 (3rd Cir.), cert. denied, 469 U.S. 831 (1984); Coenen v. R.W. Pressprich & Co., 453 F.2d 1209 (2nd Cir.), cert. denied, 406 U.S. 949 (1972). The courts apply standard contract of law principles for this purpose. Flink v. Carlson, 856 F.2d 44 (8th Cir. 1988); Cohen v. Wedbush Noble, Cooke, Inc., 841 F.2d 282 (9th Cir. 1988). The strong federal presumption in favor of arbitration must be kept in mind throughout the interpretation process. Moses H. Cone Memorial Hospital, 460 U.S. at 24; Prima Paint Corp. v. Flood & Conklin Mfg. Co., 388 U.S. 395,400-04 (1967).

In order to enforce a given arbitration agreement, "the Court in which such suit is pending [must be] satisfied that the issue . . . is referable to arbitration under such an agreement." 9 U.S.C. §3. To do so, the Court must first assess the validity of the contract in question, and then ascertain whether the arbitration clause relied upon applies to the disputes at hand. Mitsubishi Motors Corp., 473 U.S. at 626; Goodwin, 730 F.2d at 99; Flink, 856 F.2d at 44; Davis v. Chevy Chase Financial Ltd., 667 F.2d 160 (D.C. Cir. 1981) (expressly limited arbitration clause does not preclude right to judicial hearing on issues not

encompassed within clause); Controlled Sanitation Corp. v. International Ass'n of Machinists & Aerospace Wkrs., 524 F.2d 1324 (3rd Cir. 1975), cert. denied, 424 U.S. 915 (1976) (presumption in favor of arbitrability is dispelled only when agreement explicitly exempts certain conduct). This duty has been interpreted as requiring that the court examine the complaint claim by claim:

> The court must decide whether the parties had agreed to submit the particular disputes to arbitration. Neither the federal policy in favor of arbitration nor the ostensible broad reach of the arbitration provision in question relieves the District Court of judicial responsibility of determining the question of arbitrability, unless the arbitration provision is so unusually broad that it clearly vests the arbitrators with the power to resolve questions of arbitrability as well as the merits.

Necchi S.P.A. v. Necchi Sewing Machine Sales Corp., 348 F.2d 693, 695 n.l (2nd Cir. 1965), cert. denied, 383 U.S. 909 (1966) citing Warrior & Gulf Nav., 363 U.S. at 583 n.7). Doubts as to coverage under a agreement are to be resolved in favor of coverage. Moses H. Cone Memorial Hospital, 460 U.S. at 1. The Supreme Court has instructed as follows:

> [T]o be consistent with congressional policy in favor of settlement of disputes by the parties through the machinery of arbitration, [a]n order to arbitrate the particular grievance should not be denied unless it may be said with positive assurance that the

> arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage.

Warrior & Gulf Nav. Co., 363 U.S. at 582-83. See also AT&T Technologies, Inc. v. Communication Workers of America, 475 U.S. 643 (1986); Johnston Boiler Co. v. Local Lodge No. 893, Int'l Bhd. of Boilermakers, 753 F.2d 40 (6th Cir. 1985); Farkar Co. v. R.A Hanson Disc. Ltd., 604 F.2d 1 (2nd Cir. 1978) ("colorable" claim must be submitted to arbitration as per agreement).

On a motion for stay pending arbitration, the moving party bears the burden of showing that the dispute is arbitrable and that arbitration will not cause improper delay. Pioneer Supply Co. v. American Meter Co., 484 F. Supp. 227 (W.D. Okla. 1979); Lawson Fabrics, Inc. v. Akzona Inc., 355 F. Supp. 1146 (S.D.N.Y.), aff'd, 486 F.2d 1394 (2nd Cir. 1973). In addition to construing arbitration clauses liberally in favor of coverage, Brigge Crane & Rigging Co. v. Docutel Corp., 371 F. Supp. 240 (E.D.N.Y. 1973), the Court must accept the moving party's version of the relevant facts. Pas-Ebs v. Group Health Inc., 442 F. Supp. 937 (S.D.N.Y. 1977).

Because Farrel makes different opposition arguments with respect to the two different defendant companies, the Court will consider them separately.

A. Pomini Farrel S.p.A (of Italy)

Pomini Farrel contends that the entire dispute, including Farrel's challenges to arbitrability, should be submitted to arbitration, pursuant to Article 8 of the ICC

Rules which vests the Court of Arbitration with authority to hear such challenges.

Farrel opposes this motion on the ground that Pomini Farrel's right to compel arbitration expired when the license agreement terminated, and argues further that, even if the arbitration clauses survived termination of the agreements containing them, they do not cover all of the counts in the complaint. Farrel also contends that the motion for arbitration should be denied based on Pomini Farrel's participation in litigation in Italy and Scotland, and on Pomini Farrel's refusal to appear for depositions as required by this Court's August 12, 1988 Order. The Court first considers the arguments concerning the issue of the agreements to arbitrate.

(i) Enforceability and Scope

The Federal Arbitration Act created a federal right to compel enforcement of an agreement to arbitrate. It did not alter the jurisdiction of the federal courts. The Anaconda v. American Sugar Refining Co., 322 U.S. 42 (1944); Connecticut Resources Recovery Authority v. Occidental Petroleum Corp., 705 F.2d 31 (2nd Cir. 1983); Societe Generale de Surveillance, S.A. v. Raytheon European Management & Systems Co., 643 F.2d 863 (1st Cir. 1981); Erving v. Virginia Squires Basketball Club, 468 F.2d 1064 (2nd Cir. 1972). Accordingly, the parties' agreement to employ the ICC's rules, including its coverage of jurisdictional disputes, does not strip this Court of jurisdiction. Rather, it represents the parties' intention that the arbitration clause be construed broadly. 473 U.S. at 614; Gelco Corp. v. Baker Industries, Inc., 779 F.2d 26 (8th Cir. 1985). Compare McDonnell Douglas Finance Corp. v. Pennsylvania Power & Light Co., 858

F.2d 825 (2nd Cir. 1988) (court must be careful to respect narrow arbitration clause); Monorail, Inc. v. Robbins & Myers, Inc., 728 F.2d 1069 (8th Cir. 1984) (same).

Termination or expiration of a contract containing an agreement to arbitrate does not simultaneously terminate the duty to arbitrate. Nolde Bros., Inc. v. Local No. 358, Bakery & Conf. Wkrs. Union, 430 U.S. 243, 250-51 (1977); Aspero v. Shearson American Express, Inc., 768 F.2d 106 (6th Cir.), cert. denied, 474 U.S. 1026 (1985). Because the statute requires enforcement of "(a) written provision in . . . a contract . . . to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof," 9 U.S.C. §2, termination of a contract by one party based on assertions of breach by another creates a dispute squarely within the statute and properly referable to arbitration as agreed. E.g., Robert Lawrence Co. v. Devonshire Fabrics, Inc., 271 F.2d 402 (2nd Cir. 1959), cert. dism., 364 U.S. 801 (1960); El Hoss Engineering & Transport Co. v. American Indep. Oil Co., 183 F. Supp. 394 (S.D.N.Y. 1960), rev'd on other grounds, 289 F.2d 346 (2nd Cir.), cert. denied, 368 U.S. 837 (1961). Proctor & Gamble Indep. Union v. Proctor & Gamble Mfg. Co., 195 F. Supp. 134 (E.D.N.Y. 1961), aff'd, 298 F.2d 644 (2nd Cir. 1962). To do otherwise would render arbitration agreements virtually meaningless, and would defeat the parties' intent that their disputes be resolved according to an agreed procedure. Hilti, Inc. v. Oldach, 392 F.2d 368 (1st Cir. 1968).

As the Supreme Court has explained:

> The contracting parties' confidence in the arbitration process and an arbitrator's

> presumed special competence in matters concerning bargaining agreements does not terminate with the contract. Nor would their interest in obtaining a prompt and inexpensive resolution of their disputes by an expert tribunal. Hence, there is little reason to construe this contract to mean that the parties intended their contractual duty to submit grievances and claims arising under the contract to terminate immediately on the termination of the contract; the alternative remedy of a lawsuit is the very remedy the arbitration clause was designed to avoid.

Nolde Bros., 430 U.S. at 254.

Where the arbitration contract at issue has expired, the court inquires whether the dispute concerns a particular provision of that contract, and whether the contract purports to regulate post-termination conduct. E.g., Saturday Evening Post Co., 816 F.2d at 1196 (licensing agreement contains duty to cease use of licensed material upon expiration); Downing v. Merrill Lynch, Pierce, Fenner & Smith, 725 F.2d 192, 195 (2nd Cir. 1984) (arbitration clause remains effective with respect to post termination duty upon former employee not to compete); Necchi, 348 F.2d at 695 n. 1 ("There can be no doubt that the obligation to arbitrate survives the termination date of the exclusive distributorship agreement in the sense that arbitration can be compelled after that date, provided, of course, that the matter, dispute or disagreement 'arises out of or in connection with the agreement.'") (citing Enterprise Wheel & Car Corp., 363 U.S. at 593); Scott & Williams, Inc. v. United Steelworkers of America, 574 F.Supp. 450,456 (D.N.H. 1983) (claim for continuing

benefits after closure of plant). Accordingly, "where the dispute is over a provision of the expired agreement, the presumptions favoring arbitrability must be negated expressly or by clear implication." Nolde Bros., 430 U.S. at 255.

Such negation can be effected by impugning the integrity of the contract as a whole, or the arbitration clause in particular, by asserting, for example, fraud or failure of consideration, or other bases "existing at law or equity" for setting aside a contract. E.g., Moseley v. Electronic & Missile Facilities, Inc., 374 U.S. 167(1963); International Union, United Auto, Aircrafts, etc. v. Benton Harbor Malleable Industries, 242 F.2d 536(6th Cir.), cert. denied, 355 U.S. 814 (1957).

The Court evaluates the arbitrability of each claim separately. Necchi, 348 F.2d at 696-97. The arbitrability of each claim is not a function of its characterization, but rather of its relationship to the agreement containing the arbitration clause. In Re Oil Spill by Amoco Cadiz, 659 F.2d 789(7th Cir. 1981).

1. Trademark Infringement

In count one, Farrel charges that the Pominis have been engaging in trademark infringement in violation of 15 U.S.C. §1114. Specifically, Farrel contends that the 1961 preliminary agreement "provided that the right to use the trademark 'Farrel' was coextensive with the technology license and, upon termination of that license [in 1986], Pomini S.p.A was contractually obligated to discontinue any use of the 'Farrel' trademark including use in its corporate name." ¶11.

Pomini Farrel does not deny that it has continued to use the name "Farrel," but contends that this usage is not covered by the trademark agreement, and that the parties never enter into any agreement regarding usage of the name. It implies that Farrel violated the 1976 agreement by deciding unilaterally in 1979 to cancel the licensing arrangement when its stated term expired in 1986, and that Pomini Farrel has not been acting improperly because the 1985 cancellation notice did not specifically prohibit Pomini from continuing to use Farrel's information after termination of the license.

Because Pomini Farrel contends that this dispute should be arbitrated, the Court considers whether there is an arbitration agreement that covers this particular claim. If the 1961 agreement was the basis of Pomini Farrel's right to use the trademark(s), as is suggested by the language of Farrel's complaint, there would be no grounds for sending this claim to arbitration, for that agreement contained no arbitration provision. Plainly, however, whatever trademark rights may have been conferred by the 1961 agreement were superseded by the 1972 trademark agreement, which continued in force until the licensing arrangement was terminated in 1986.

A review of the trademark agreement readily reveals that it imposed continuing obligations on Pomini Farrel. For example, the agreement required that Pomini Farrel "agree[] that it will immediately cease and desist from any and all use of the Farrel Trademarks" upon termination, and "that it will not adopt, whether during the term of this Agreement, its extension or <u>after termination</u> of this Agreement, any word or symbol which is similar any of the Farrel Trademarks." Section 5(c) and (d) (emphasis added). Neither the trademark agreement nor

the licensing agreement placed an expiration date on the post-termination duty to refrain from using similar marks. Both the trademark agreement and the licensing agreement called for arbitration in Geneva according to the ICC rules. In this count, Farrel complains that Pomini Farrel has violated both the immediate duty to cease using a the marks and the continuing duty to refrain from using similar ones. Because these complaints derive from the duties set forth in the 1972 agreement, it appears that they should be heard by an arbitrator according to the arbitration clause in that agreement.

Under article 8 of the ICC rules, the arbitrator hears disputes concerning the scope of arbitral jurisdiction. This Court finds that Pomini Farrel has made a sufficient initial showing of the arbitrability of this claim to support its motion to compel. Farrel is not, of course, foreclosed from raising its jurisdictional objections before the arbitrator, who must confirm his or her jurisdiction before making dispositive rulings concerning the rights and duties under the agreements.

2 & 3. False Representation and Unfair Competition

In counts two and three, Farrel charges that the Pominis "have been and are using in commerce false descriptions and/or representations in violation of 15 U.S.C. §1125(a), and that their "willful and deliberate acts . . . constitute unfair competition." ¶¶21, 24. In essence, these counts assert that, by virtue of the trademark violations asserted in count one and the Pominis' efforts to market their products in this country, United States consumers are likely to be misled and to confuse the Italian-made products with the Connecticut ones. Upon review, it is apparent that these counts also

assert violations of the duties imposed on Pomini Farrel by the trademark agreement. For example, that agreement specifically barred direct competition in North America. §1(c). Further, it contained Pomini Farrel's agreement that the Italian company would use the trademarks "to identify only the Farrel Products only so long as the Farrel Products are manufactured by [Pomini Farrel] in strict compliance with Farrel Technical Information and Farrel's quality standards §2(a). In addition, Pomini Farrel agreed that it "[would] not, in any manner whatsoever, use any of the Farrel Trademarks in combination with any of its own marks." §3(d). In general, this agreement imposed an obligation on Pomini Farrel not to compete with Farrel, especially not in the United States and Canada -- "[Pomini Farrel] will not at any time do or cause to be done any act or thing, directly or indirectly contesting or in any way impairing, or tending to impair any part of Farrel's right, title or interest in the Farrel Trademarks and the goodwill symbolized thereby." §2(b) (emphasis added). Like the portion of this agreement discussed above, the non-competition obligation has no expiration date and appears plainly to continue beyond the termination of the agreement. Accordingly, the Court makes an initial finding that the dispute concerning whether Pomini Farrel has been violating this duty appears to be one that should be resolved in arbitration. As noted above, the arbitrator must, under article 8 of the ICC rules, confirm this finding before proceeding to the merits of this dispute.

4. Deceptive Trade Practices in Violation of Ohio Law

The Ohio Deceptive Trade Practices Act, Ohio Revised Code §4165.01, et seq.,[10] contains prohibitions analogous to those in the federal statute, ad the analysis of claims under it is essentially the same as that for federal claims. Cesare v. Work, 36 Ohio App. 3d 26, 520 N.E.2d 586 (Summit Cty. 1987); Jewel Companies, Inc. v.

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[10] In relevant part, this statute provides:

> **§4165.02 [Acts constituting violation.]**
> A person engages in a deceptive trade practice when, in the course of his business, vocation, or occupation, he:
>
> (A) Passes off goods or services as those of another;
>
> (B) Causes likelihood of confusion or misunderstanding as to the source, sponsorship, approval, or certification of goods or services;
>
> (C) Causes likelihood of confusion or misunderstanding as to affiliation, connection, or association with, or certification by, another;
>
> (D) Uses deceptive representations or designations of geographic origin in connection with goods or services;
>
> (E) Represents that goods or services have sponsorship, approval, characteristics, ingredients, uses, benefits, or quantities that they do not have or that a person has a sponsorship, approval, status, affiliation, or connection that he does not have;
>
> (G) Represents that goods or services are of a particular standard, quality, or grade, or that goods are of a particular style or model, if they are of another . . . .

Westhall Co., 413 F. Supp. 994 (N.D. Ohio 1976), 575 F.2d 1176 (6th Cir. 1978). Accordingly, for the same reasons that counts one through three appear to be arbitrable, the state law claim is arbitrable as well.

5. Breach of the 1961 Agreement

In count five, Farrel contends that "Pomini, S.p.A. has breached the 1961 Agreement by using Farrel's trademarks." ¶28. As explained above with respect to count one, whatever rights were conferred by the 1961 agreement were superseded by the trademark agreement and the licensing agreement, both of which contained arbitration clauses. Specifically, the trademark agreement stated in certain language that it "set[] forth the entire agreement between the parties pertaining to the Farrel Trademarks and merge[d] all prior discussion between them. Neither party shall be bound by any conditions, warranties or representations with respect to any of the terms or conditions hereof other than as expressly provided for in this Agreement . . . ." §6(h). The trademark agreement's arbitration clause applies to "[a]ll disputes arising in connection with this Agreement." §6(d). Therefore, because the dispute concerning the rights conferred by the 1961 agreement plainly implicates the trademark agreement, the breach of contract claim appears to be governed by its arbitration clause. As with the other claims, this Court's preliminary finding of arbitrability must be confirmed by the ICC arbitrator.

6. Patent Infringement by Pomini Farrel S.p.A

In count six, Farrel states that it is the owner of United States Letters Patent Nos. 3,570,820 and 3,610,585, and that Pomini Farrel has "intentionally infringed one or

more claims of the Patents by manufacturing, using and/or selling products in the United States embodying the patented inventions." ¶31.

The 1973 agreement licenses Pomini Farrel to use, in a territory excluding North America, designs and specifications covered by Farrel's patents. It specifically mentions Banbury Mixers of various types. See Agreement, at page 3. It stated that the agreement covered "the complete machine together with all purchased items which go to make the machine a processing entity." Id. at 1-2. With the license to use patented designs, came the requirement that:

> [a]ll designs, specifications, drawings, photographs, reproductions and other material furnished to Pomini hereunder, and under the Agreement of March 22, 1963, shall remain the property of Farrel and shall be returned at the termination of this Agreement. Pomini shall not at any time in any way or manner whatsoever make known, divulge or communicate any of the drawings, specifications, design and other data in particular, supplied to them by Farrel or acquired by Pomini from any sources whatsoever relating to the manufacture of the machinery covered by this agreement or any part thereof of any person, firm or company except as hereinafter mentioned, and Pomini will take all proper precautions to prevent any information concerning the same being acquired by any unauthorized person, firm or company.

Id. at ¶16 (emphasis added). By its plain language, this paragraph restricted Pomini Farrel's use of the patented designs to that permitted under the licensing arrangement, and required that Pomini Farrel cease using such material, and return it to Farrel, upon termination of the arrangement. Count six of Farrel's complaint amounts to an assertion that Pomini Farrel has violated the geographic, durational and "return" provisions of the agreement. Such an assertion creates a "dispute[] arising in connection with the [1973] Agreement," which is subject to that contract's arbitration clause. See ¶28. The 1976 agreement simply renewed the rights and duties relevant to this claim, and reiterates the applicability of the arbitration clause. Accordingly, this Court makes a preliminary finding of arbitrability with respect to this claim as well.

In addition to asserting that the patent claim does not arise from the parties' agreements, Farrel also contends that this claim is nonarbitrable because, when the agreements were written, federal law did not permit arbitration of such claims. As Farrel Points out, the agreements provide that they are to be governed by Connecticut law, which, according to Farrel, requires application of such rules of law as were in force when a contract was made. This is a perfectly reasonable argument, however, because the Court has no doubt that the arbitrability of this claim is at least "colorable," Farkar, 604 F.2d at 1, its merits must be determined by the ICC.

For, once a court finds that a valid arbitration agreement covers a given dispute, the resolution of the merits of the dispute, including any further contract

interpretation, becomes the province of the arbitrator. As the Supreme Court has instructed:

> The question of interpretation of the [contract] is a question for the arbitrator. It is the arbitrator's construction which was bargained for; and so far as the arbitrator's decision concerns construction of the contract, the courts have no business overruling him because their interpretation of the contract is [or might be] different from his.

Enterprise Wheel & Car Corp., 363 U.S. at 599; International Assoc., Machinists & Aerospace Wkrs. v. Oxco Brush Div., 511 F.2d 239, 242-43 (6th Cir. 1975). Likewise, it is for the arbitrator to decide whether conditions precedent to arbitration have been satisfied. United Bhd. of Carpenters & Joiners v. Brunswick Corp. 342 F.2d 792 (6th Cir. 1965); Western Automatic Machine Screw Co. v. International Union, UAA and AIW, 335 F.2d 103 (6th Cir. 1964).

(ii) Waiver

Farrel contends that Pomini Farrel has waived its right to compel arbitration by voluntarily participating in litigation -- commenced by Farrel -- in Italy and Scotland. Farrel is correct that a party may be deemed to have waived its right to compel arbitration if it actively participates in litigation or otherwise acts inconsistently with that right. German v. River Terminal Ry. Co., 477 F.2d 546 (6th Cir. 1973); Locomotive Co. v. Gyro Process Co., 185 F.2d 316 (6th Cir. 1950). However, waiver requires more than simply participating in litigation

concerning arbitrability. Georgia Power Co. v. Cimarron Coal Corp., 526 F.2d 101 (6th Cir. 1975), cert. denied, 425 U.S. 952 (1976).

The inquiry with respect to waiver concerns whether the parties have expended sufficient effort preparing to present the merits of the case in the judicial forum that it would be unfair and wasteful to require commencement of a second proceeding elsewhere. American Locomotive, 185 F.2d at 319-20 (during seven years of litigation, the party opposing arbitration had expended approximately $200,000 preparing for trial in court). It is within the discretion of the trial court to refer this inquiry to the arbitrator. ATSA of California, Inc. v. Continental Ins. Co., 702 F.2d 172 (9th Cir. 1983).

The Court finds Farrel's waiver argument unpersuasive. First, Farrel asserts that it has expended resources litigating in this forum. The law of this circuit is clear, however, that litigation concerning arbitrability is insufficient to establish waiver by the party seeking arbitration. Georgia Power, 526 F.2d at 101.[11] More importantly, Farrel has not demonstrated the relevance of litigation in Scotland and Italy. Without the records of those cases, this Court has no basis for concluding that they involve the same contracts and similar disputes. Further, even if they do, Farrel cites no authority for the proposition that failure to assert arbitration rights in one lawsuit constitutes waiver of such rights in a different lawsuit, especially one taking place in a different country. Notwithstanding that Farrel has failed to convince this Court, it may, as explained in ATSA, 702 F.2d at 172,

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[11] Farrel ought not to have expended very much, as discovery was stayed as to all issues other than arbitrability.

reassert its position on this issue before the ICC arbitrator, who may come to a different conclusion upon consideration of the case in its entirety.

B. Pomini, Inc. (of Ohio)

Farrel asserts claims against Pomini, Inc. in counts one through four, to-wit: trademark infringement, false representation in violation of 15 U.S.C. §1125(a), unfair competition, and deceptive trade practices in violation of Ohio law. In support of its motion for a stay pending arbitration, Pomini, Inc. contends that it can compel arbitration even if it was not a party to any of the agreements because, with respect to all of Farrel's allegations, it has acted merely as Pomini Farrel's agent.

In opposition, Farrel argues that, whether or not it is a subsidiary, Pomini, Inc. is a separate legal entity formed after Pomini Farrel's license and trademark agreements had expired. Farrel disputes the actual control exerted by the Italian parent over the Ohio subsidiary and takes the position that Pomini, Inc. cannot claim rights under contracts to which it is not a party where such rights have not been assigned. It contends, as it did in opposition to Pomini Farrel's motion, that its present claims against Pomini, Inc. do not relate to any of the expired agreements, and contends further that the resolution of its claims against Pomini Farrel will not determine the outcome with respect to its claims against Pomini, Inc.

Farrel is correct that a party's duty to arbitrate is a matter of contract. AT&T Technologies, 475 U.S. at 648; Lorber Industries of California v. Los Angeles Printworks Corp., 803 F.2d 523(9th Cir. 1986); Laborers' Int'l

Union v. W.W. Bennett Constr. Co., 686 F.2d 1267 (7th Cir. 1982). It is not correct, however, that the right to compel arbitration is necessarily precluded where a party is not a signatory to the arbitration agreement. A party may "otherwise" possess a right to compel arbitration, Lorber, 803 F.2d at 523, and ordinary contract and agency principles determine whether such a right exists. Interocean Shipping Co. v. National Shipping & Trading Corp., 523 F.2d 527 (2nd Cir. 1975), cert. denied, 423 U.S. 1054 (1976); A/S Custodia v. Lessin Int'l Inc., 503 F.2d 318 (2nd Cir. 1974); Reyes Compania Naviera S.A. v. Manumante S.A., 649 F. Supp. 789 (S.D.N.Y. 1986).

For example, where a party's rights derive from a contract to which it is not a signatory, the party is bound by that contract's arbitration clause, Hays & Co. v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 885 F.2d 1149 (3rd Cir. 1989), as are nonsignatory contingent beneficiaries. Barrowclough v. Kidder, Peabody & Co., 752 F.2d 923 (3rd Cir. 1985). On the other hand, an agent is not bound by the arbitration clause in its principal's contract where the agent has a separate, independent contract without an arbitration clause. ASTA of California, Inc., 702 F.2d at 172.

With specific reference to parent and subsidiary corporations, a nonsignatory parent can be bound by a contract between a buyer and its "paper" sales arm subsidiary through which the parent conducts the business giving rise to the dispute. Farkar Co. v. R.A Hanson DISC. Ltd., 583 F.2d 68 (2nd cir. 1978). Similarly, any nonsignatory can be bound where it is an "alter ego, of a signatory. Wren Distributors. Inc. v. Phone-Mate, Inc., 600 F. Supp. 1576 (E.D.N.Y. 1985). Further, a nonsignatory parent or subsidiary will be bound by the

arbitration agreement of the other where a dispute concerns common operative facts and the claims are "inherently inseparable." J.J. Ryan & Sons, Inc. v. Rhone Poulenc Textile, S.A., 863 F.2d 315 (4th Cir. 1988); Reisfeld & Son Import Co. v. S.A. Eteco, 530 F.2d 679 (5th Cir. 1976); Okcuogluo v. Hess, Grant & Co., 580 F. Supp. 749 (E.D. Pa. 1984).

The court may also consider interests in judicial economy, with reference to the federal policy favoring arbitration, when determining whether to stay proceedings with respect to nonsignatory parties. In re Oil Spill v. the Amoco Cadrz, 659 F.2d at 789. The judgment as to the interrelationship between the parties, the facts, and the claims, is within the discretion of the trial court. Sam Reisfeld & Son Import Co., 530 F.2d at 679. Moreover, upon referral to arbitration, the arbitrator may reevaluate the court's preliminary conclusion on this issue in the context of a broader factual record addressing the dispute in its entirety. E.g., Benjamin F. Shaw Co. v. Cincinnati Gas & Elec., 633 F. Supp. 841 (S.D. Ohio 1986).

Farrel charges Pomini, Inc., together with Pomini Farrel, in the first four counts of its complaint. Pomini, Inc. asserts that, with respect to each of these charges and all of the specific allegations in the complaint, it has been acting as Pomini Farrel's agent and thus shares Pomini Farrel' s right to compel arbitration of all of these claims.

The relationship between Pomini, Inc. and Pomini Farrel is governed by the agency and management contracts. Under these agreements, Pomini, Inc. has the exclusive right to promote Pomini Farrel's products in North America, and is barred from working on behalf of other companies. Pomini, Inc.'s reply, Ex. B, Agent

Contract, ¶¶3,14. At the same time, its autonomy in this role is clearly limited. For example, Pomini Farrel approves and controls Pomini, Inc.'s promotional materials and activities. Id. at ¶4. Pomini, Inc. cannot issue invoices, make guarantees, or negotiate prices and other conditions of sale. Id. at ¶7.

Perhaps even more persuasive than this formal relationship is the fact that key management authority is retained by Pomini Farrel. Italian managers constitute a majority of Pomini, Inc.'s board of directors, and hold the office of president and one of two vice presidencies. On the limited record before this Court, Pomini, Inc. is persuasive that it has no significant identity beyond that of Pomini Farrel's agent. It was created to perform a task for Pomini Farrel, and it is limited to doing this task with specific direction. The single, undifferentiated statement of factual allegations in the complaint underscores the otherwise evident commonality of the operative facts with respect to the claims against the two corporations. These claims involve the same products, made using the same technology, and distributed using the same marketing network. The Court is satisfied that the relevant facts and claims are "inherently inseparable" in this case. J.J. Ryan & Sons, 863 F.2d at 315.

Moreover, although the present record is too limited to support a conclusive finding that Pomini, Inc. is merely a "paper" sales arm, Farkar, 583 F.2d at 68, or an "alter ego", Wren Distributors, 600 F. Supp. at 1576, it is obvious that Pomini Farrel exists in its present form as a result of its former relationship with Farrel, and Pomini, Inc. exists solely to further Pomini Farrel's efforts in this same business. If Farrel prevails in the present litigation, especially if it obtains the injunctive relief it seeks, Pomini,

Inc. will be directly and immediately affected by that result. In fact, it may be forced to cease all of its present activities. On these facts, it is certainly fair to say that Pomini, Inc. enjoys "derivative" benefits from the expired contracts, Hays & Co., 885 F.2d at 1149, and that its current rights are contingent upon Pomini Farrel's. Barrowclough, 752 F.2d at 923. Pomini, Inc. is persuasive that its claim of arbitrability is, at least, "colorable." Farkar, 604 F.2d at 1. The factual commonalities here, and the resultant efficiency of keeping the action consolidated, only reinforce this conclusion.

Opposing this conclusion, Farrel stresses Marsella's acknowledgement that there have never been any contracts between Farrel and Pomini, Inc., nor any assignment of rights by Pomini Farrel to Pomini, Inc. Farrel also makes much of Marzella's statement that he is unaware of any rights claimed by Pomini, Inc. under the expired agreements between Farrel and Pomini Farrel. The cited precedents make clear that the fact that Pomini, Inc. was never a signatory to the agreements is not dispositive. Likewise, the fact that Pomini, Inc. did not exist during the pendency of the agreements, and does not presently claim any rights under them, does not necessarily mean that it has not received benefits from them, let alone that its actions as Pomini Farrel's sales agent have not constituted breaches of Pomini Farrel's residual contract duties. On the limited record before this Court, the relationship between Pomini, Inc. and Pomini Farrel compels a finding of "inherent inseparability." J.J. Ryan & Sons, 863 F.2d at 315.

As was the case above with respect to Pomini Farrel, this determination of arbitrability is a preliminary one. The Court is bound to respect the parties'

incorporation of the ICC rules, which grant broad authority to the arbitrator. As in Benjamin F. Shaw Co., 633 F. Supp. at 841, it will not be improper for the arbitrator to reconsider this conclusion on a more fully developed record.

III.

Two Rule 11 sanctions motions are pending concerning the briefing on the motion(s) to stay: (1) by Farrel against Pomini, Inc.; and (2) by Pomini, Inc. against Farrel. In addition, Farrel seeks sanctions against Pomini Farrel under Rule 37 based on its failure to appear for depositions. All of these motions are opposed.

A. The Rule 11 Motions

Federal Rule of Civil Procedure 11 provides in relevant part:

> . . . The signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well-grounded in fact and is warranted by existing law or a good faith argument for the extension, modification or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation . . . .

The rule thus requires a proper factual foundation, a proper legal foundation, and a legitimate purpose for every filing. See INVST Financial Group Inc. v. Chem-Nuclear Systems. Inc., 815 F.2d 391, 402 (6th Cir.), cert. denied, 484 U.S. 927 (1987). It provides that violators "shall" be sanctioned in an appropriate manner, such as bearing the expenses incurred by the opposing party as a result of the improper conduct, including attorney fees. See Herron v. Jupiter Transp. Co.. 858 F.2d 332, 337 (6th Cir. 1988). Selection of a proper sanction is within the discretion of the court. Albright v. Upjohn Co., 788 F.2d 1217, 1222 (6th Cir. 1986).

1. Farrel's Motion for Sanctions Against Pomini, Inc.

Farrel contends that Pomini, Inc. should be sanctioned because it did not acknowledge that it is a separate corporate entity from Pomini Farrel, that it was not formed until after all of the agreements had been terminated, and that it was not a signatory to any of these agreements. Farrel contends that, because Pomini, Inc. was not a signatory, it lacked a proper basis in fact and law for its motion to stay. Because the Court has found Pomini, Inc.'s motion to have a "colorable" basis in both fact and law, and has granted it to permit consideration of the issue by an ICC arbitrator, it necessarily follows that the Court does not agree with Farrel's characterization of Pomini, Inc.'s motion as "unwarranted." Farrel's motion for sanctions against Pomini, Inc. is denied.

2. Pomini, Inc. Motions for Sanctions Against Farrel

Responding to the above motion, Pomini, Inc. contends that Farrel should be sanctioned because it failed to investigate properly before hastily filing a Rule 11

motion. Pomini, Inc. is correct that a Rule 11 motion is itself subject to the rule. Fisher Bros. v. Cambridge-Lee Industries, Inc., 38 Fed. Rules Serv. 2d 1013 (E.D. Pa. 1983). Although the Court agrees with Pomini, Inc. that Farrel's motion against it was not properly supported, the Court is not persuaded that Farrel's motion was so egregious as to justify Pomini, Inc.'s responding in kind. Pomini, Inc.'s right to move for stay was a close enough question that Farrel was not unreasonable or "silly" to question it, Pomini, Inc.'s reply brief, at 11, notwithstanding that questioning it via a Rule 11 motion was unnecessarily aggressive. Pomini, Inc. would have followed the spirit of the rule more closely by simply opposing Farrel's motion, without increasing the burden on the Court and the costs to both sides by filing its own motion. The Court finds this motion inadequately supported and denies it as well.

B. **Farrel's Rule 37 Motion Against Pomini Farrel**

Rule 37(b) provides in pertinent part:

> (2) If a party . . . fails to obey an order to provide or permit discovery . . . the court in which the action is pending may make such orders in regard to the failure as are just, and among others . . .
>
> * * *
>
> (B) An order refusing to allow the disobedient party to support or oppose designated claims or defenses, or prohibiting

> that party from introducing designated matters in evidence;
>
> * * *
>
> In lieu of any of the foregoing orders or in addition thereto, the court shall require the party failing to obey the order or the attorney advising that party or both to pay the reasonable expenses, including attorney's fees, caused by the failure, unless the court finds that the failure was substantially justified or that other circumstances make an award of expenses unjust.

(emphasis added).

The plain language of the rule indicates that imposition of sanctions for failure to comply with a discovery order is permissive. Evaluation of whether sanctions are justified in a given set of circumstances and, if so, what sanction would be "just," is within the discretion of the Court. Regional Refuse Systems, Inc. v. Inland Reclamation Co., 842 F.2d 150, 154 (6th Cir. 1988).

Farrel contends that Pomini Farrel should be sanctioned because it neither moved for a protective order nor produced, from Italy, persons whose depositions had been noticed according to the expedited discovery schedule set by the Court. Pomini Farrel exclaims in opposition, "Enough is enough." The Court agrees. In cases such as this, with principals located on different continents, discovery requires cooperation from both sides. At the parties' request, the Court set an expedited discovery schedule with respect to limited issues. The

parties then immediately began to bicker about logistics. On the present motion, the Court finds itself inquiring, if Farrel required the immediate but limited depositions of Italian residents for whom it would be very expensive to purchase intercontinental airline tickets without any notice, why the parties did not simply agree to conduct the depositions by telephone? Alternatively, they could have followed Pomini Farrel's eminently reasonable suggestion that they split the cost, take the depositions, and -- if they remained unclear as to who was responsible for the cost - ask the Court to rule on this issue? The local rules require that litigants make earnest efforts to accomplish their necessary discovery without regular policing by the Court. In this case, however, both sides appear to have preferred addressing each other with sanctions motions and crossmotions -- escalating the paperwork and the legal fees. Because Farrel has certainly been at least as culpable as the Pominis in this regard, the Court would be hard-pressed to find demonstrable fault on one side and clean hands on the other. Viewing the case as a whole and exercising its discretion, the Court concludes that Farrel has not borne its burden of persuasion on this motion.

IV.

For the foregoing reasons, the motion to stay proceedings and to compel arbitration is granted with respect to both Pomini Farrel S.p.A and Pomini, Inc. The motions for sanctions pursuant to Rule 11 and Rule 37 are denied.

IT IS SO ORDERED.

ANN ALDRICH
UNITED STATES DISTRICT
JUDGE

APPENDIX D

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

91-1111

FARREL CORPORATION,
Appellant,

v.

UNITED STATES INTERNATIONAL TRADE COMMISSION,
Appellee,

and

POMINI FARREL S.p.A. and POMINI, INC.,
Intervenors.

ORDER

Before MICHEL, Circuit Judge, COWEN, Senior Circuit Judge, and PLAGER, Circuit Judge.

A petition for rehearing having been filed in this case, and a response thereto having been invited by the court and filed,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, denied.

The suggestion for rehearing in banc is under consideration.

The mandate will issue on January 30, 1992.

FOR THE COURT,

/s/ Francis X. Gindhart
Francis X. Gindhart
Clerk

Dated: January 23, 1992

cc: MARC S. PALAY
SCOTT ANDERSON
TOM M. SCHAUMBERG

FARREL CORP V US ITC, 91-1111
(ITC - 337-TA-317)

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

APPENDIX E

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

91-1111

FARREL CORPORATION,
Appellant,

v.

UNITED STATES INTERNATIONAL TRADE COMMISSION,
Appellee,

and

POMINI FARREL S.p.A. and POMINI, INC.,
Intervenors.

O R D E R

A suggestion for rehearing in banc having been filed in this case, and a response thereto having been invited by the court and filed,

UPON CONSIDERATION THEREOF, it is

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, declined.

Chief Judge NIES and Circuit Judge Newman would rehear the case in banc.

FOR THE COURT,

/s/ Francis X. Gindhart
Francis X. Gindhart
Clerk

Dated: February 5, 1992

cc: MARC S. PALAY
SCOTT ANDERSON
TOM M. SCHAUMBERG

FARREL CORP V US ITC, 91-1111
(ITC - 337-TA-317)

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

APPENDIX F

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

91-1111

FARREL CORPORATION,
Appellant,

v.

UNITED STATES INTERNATIONAL
TRADE COMMISSION,
Appellee,

and

POMINI FARREL S.p.A. and POMINI, INC.,
Intervenors.

J U D G M E N T

ON APPEAL from the U.S. International Trade Commission
in CASE NO(S). 337-TA-317
This CAUSE having been heard and considered, it is
ORDERED and ADJUDGED:

REVERSED AND REMANDED

ENTERED BY ORDER OF THE COURT,

/s/ Francis X. Gindhart
Francis X. Gindhart, Clerk

Dated: November 22, 1991
ISSUED AS A MANDATE: February 26, 1992

APPENDIX G

TARIFF ACT OF 1930, AS AMENDED

§ 1337. Unfair practices in import trade

(a) Unlawful activities; covered industries; definitions

(1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:

> (A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), and (D)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is--
>
> > (i) to destroy or substantially injure an industry in the United States;
> >
> > (ii) to prevent the establishment of such industry; or
> >
> > (iii) to restrain or monopolize trade and commerce in the United States.
>
> (B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the

owner, importer, or consignee, of articles that--

(i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under Title 17; or

(ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

(C) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

(D) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of a semiconductor chip product in a manner that constitutes infringement of a mask work registered under chapter 9 of Title 17.

(2) Subparagraphs (B), (C), and (D) of paragraph (1) apply only if an industry in the United States, relating to the articles protected by the patent copyright, trademark or mask work concerned, exists or is in the process of being established.

(3) For purposes of paragraph (2), an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent, copyright, trademark, or mask work concerned-

(A) significant investment in plant and equipment;

(B) significant employment of labor or capital; or

(C) substantial investment in its exploitation, including engineering, research and development, or licensing.

(4) For purposes of this section, the phrase "owner, importer, or consignee" includes any agent of the owner, importer, or consignee.

(b) Investigation of violations by Commission; time limits

(1) The Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative. Upon commencing any such investigation, the Commission shall publish notice thereof in the Federal Register. The Commission shall conclude any such investigation, and make its determination under this section, at the earliest practicable time, but not later than one year (18 months in more complicated cases) after the date of publication of notice of such investigation. The Commission shall publish in the Federal Register its reasons for designating any investigation as a more complicated investigation. For purposes of the one-year and 18-month periods prescribed by this subsection, there shall be excluded any period of time during which such

investigation is suspended because of proceedings in a court or agency of the United States involving similar questions concerning the subject matter of investigation.

(2) During the course of each investigation under this section, the Commission shall consult with, and seek advice and information from, the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and such other departments and agencies as it considers appropriate.

(3) Whenever, in the course of an investigation under this section, the Commission has reason to believe, based on information before it, that a matter, in whole or in part, may come within the purview of section 1303 of this title or of part II of subtitle IV of this chapter, it shall promptly notify the Secretary of Commerce so that such action may be taken as is otherwise authorized by such section and such Act. If the Commission has reason to believe the matter before it is based solely on alleged acts and effects which are within the purview of section 1303, 1671 or 1673 of this title, it shall terminate, or not institute, any investigation into the matter. If the Commission has reason to believe the matter before it is based in part on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, and in part on alleged acts and effects which may, independently from or in conjunction with those within the purview of such section, establish a basis for relief under this section, then it may institute or continue an investigation into the matter. If the Commission notifies the Secretary or the administering authority (as defined in section 1677(1) of this title) with respect to a matter under this paragraph, the Commission may suspend its investigation during the time the matter is before the

Secretary or administering authority for final decision. For purposes of computing the 1-year or 18-month periods prescribed by this subsection, there shall be excluded such period of suspension. Any final decision of the Secretary under section 1303 of this title or by the administering authority under section 1671 or 1673 of this title with respect to the matter within such section 1303, 1671, or 1673 of this title of which the Commission has notified the Secretary or administering authority shall be conclusive upon the Commission with respect to the issue of less-than-fair-value sales or subsidization and the matters necessary for such decision.

(c) Determinations; review

The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of a settlement agreement, terminate any such investigation, in whole or in part, without making such a determination. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of Title 5. All legal and equitable defenses may be presented in all cases. Any person adversely affected by a final determination of the Commission under subsection (d), (e), (f), or (g) of this section may appeal such determination, within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of Title 5. Notwithstanding the foregoing provisions of this subsection Commission determinations under subsections (d), (e), (f), and (g) of this section with respect to its findings on the public

health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of Title 5.

(d) Exclusion of articles from entry

If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry.

19 U.S.C. § 1337(a),(b),(c) & (d).

FEDERAL ARBITRATION ACT

§ 2. Validity, irrevocability, and enforcement of agreements to arbitrate

A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

§ 202. Agreement or award falling under the Convention

An arbitration agreement or arbitral award arising out of a legal relationship, whether contractual or not, which is considered as commercial, including a transaction, contract or agreement described in section 2 of this title, falls under the Convention. An agreement or award arising out of such a relationship which is entirely between citizens of the United States shall be deemed not to fall under the Convention unless that relationship involves property located abroad, envisages performance or enforcement abroad, or has some other reasonable relation with one or more foreign states. For the purpose of this section a corporation is a citizen of the United States if it is incorporated or has its principal place of business in the United States.

9 U.S.C. §§ 2, 202.

CONVENTION ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRAL AWARDS

Article II

1. Each Contracting State shall recognize an agreement in writing under which the parties undertake to submit to arbitration all or any differences which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not, concerning a subject matter capable of settlement by arbitration.

2. The term "agreement in writing" shall include an arbitral clause in a contract or an arbitration agreement, signed by the parties or contained in an exchange of letters or telegrams.

3. The court of a Contracting State, when seized of an action in a matter in respect of which the parties have made an agreement within the meaning of this article, shall, at the request of one of the parties, refer the parties to arbitration, unless it finds that the said agreement is null and void, inoperative or incapable of being performed.

21 U.S.T. 2517, T.I.A.S. No. 6997 (1970).

1951 AGREEMENT SUPPLEMENTING TREATY OF FRIENDSHIP, NAVIGATION AND COMMERCE BETWEEN THE UNITED STATES AND ITALY

Article VI

The clauses of contracts entered into between nationals, corporations and associations of either High Contracting Party, and nationals, corporations and associations of the other High Contracting Party, that provide for the settlement by arbitration of controversies, shall not be deemed unenforceable within the territories of the other High Contracting Party merely on the grounds that the place designated for the arbitration proceeding is outside such territories, or that the nationality of one or more of the arbitrators is not that of such other High Contracting Party.

12 U.S.T. 131, T.I.A.S. No. 4685 (1951).

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No. 91-1501

IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

POMINI FARREL S.p.A. and POMINI, INC.,

Petitioners,

v.

FARREL CORPORATION and
UNITED STATES INTERNATIONAL
TRADE COMMISSION,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR THE RESPONDENT IN OPPOSITION

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QUESTION PRESENTED

Whether the United States International Trade Commission has authority to terminate an on-going investigation under section 337 of the Tariff Act of 1930, where underlying claims have been ordered to arbitration under a contractual arbitration clause, notwithstanding the statute's clear directives that the Commission shall deal with any violations "in addition to any other provision of law," and that, with two specific but inapplicable exceptions, it "shall determine, with respect to each investigation conducted by it . . . whether or not there is a violation of this section."

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IN THE
SUPREME COURT OF THE UNITED STATES
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POMINI FARREL S.p.A. and POMINI, INC.,

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FARREL CORPORATION and
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On Petition for a Writ of Certiorari to
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The Federal Circuit

BRIEF FOR THE RESPONDENT IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. A1-A23) is reported at 949 F.2d 1147. The opinion of the

United States International Trade Commission (Pet. App. A24-A60) is reported at USITC Pub. 2414 (Aug. 1991).

JURISDICTION

The judgment of the court of appeals was entered on November 22, 1991. A timely petition for rehearing was denied on January 23, 1992. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1) (1988).

STATEMENT

Beginning in 1957 and ending in 1985, respondent Farrel Corporation and petitioner Pomini Farrel S.p.A. (and their respective predecessors) operated under licensing agreements whereby Pomini was authorized to manufacture heavy mixing machines following designs set forth in Farrel drawings and utilizing patented technology, and to sell them in territories specified in the licensing agreements. As of January 1, 1986, in accordance with the licensing agreements, Farrel terminated all of Pomini's rights to use or retain any Farrel technology.

In response to Pomini's continued use of Farrel technology in violation of the licensing agreement, including the sale of offending products throughout the world, and including the United States where no rights under the license had ever existed,[1] Farrel brought legal actions in Italy, Great Britain, and the United States. In

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[1] Shortly after the termination of the license agreement, Pomini announced plans to service the United States market through a newly-formed entity, Pomini, Inc., and did in fact proceed to sell products in the United States using misappropriated Farrel technology.

August 1990, based on a complaint filed by Farrel, the United States International Trade Commission ordered the institution of an investigation pursuant to subsection (b) of section 337 of the Tariff Act of 1930, as amended, to determine whether Pomini's importation of mixing devices amounted to a violation of section 337(a)(1)(A), the threat or effect of which was to destroy or substantially injure an industry in the United States. 19 U.S.C. § 1337(a)(1)(A).

Upon objection raised by Pomini in a motion for summary determination, the Administrative Law Judge terminated and the Commission subsequently affirmed termination of its investigation on the ground that underlying claims were the subject of an arbitration clause contained in the licensing agreements and had in fact been ordered to arbitration by the United States District Court for the Northern District of Ohio. Pet. App. A26-A55. Commissioner Rohr dissented, stating in part that "the Commission does not have the authority to suspend or terminate this investigation." Pet. App. A56.

Following termination of the ITC investigation, the parties submitted the underlying dispute to arbitration before the International Chamber of Commerce in Geneva. That proceeding has gone forward, and, as this opposition was prepared, evidence and argument were to be heard beginning April 10, 1992. Petition at 11. While no precise date can be established for final resolution of that matter, it is likely that a decision will be rendered in the relatively near future.

On appeal by Farrel of the decision of the ITC terminating the Commission investigation, the United States Court of Appeals for the Federal Circuit reversed.

Based on a detailed reading of the language of the ITC's organic statute, it concluded that the statute did not, in fact, confer upon the Commission the discretionary authority to dismiss its own investigation in deference to an arbitration clause. *See* discussion at 9-12, *infra*. Following the panel's denial of the petition for rehearing, the full court, with two judges dissenting, denied Pomini's suggestion for rehearing in banc. Pet. App. A107-108.

ARGUMENT

According to petitioners, this case presents the question whether agreements to arbitrate are enforceable in matters pending before the International Trade Commission. They further contend that the decision below "defies" this Court's rulings in *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985), and *Scherk v. Alberto-Culver Co.*, 417 U.S. 506 (1974). Petition at 13. Both of these assertions are false. In fact, the decision of the United States Court of Appeals for the Federal Circuit presents no issue of the enforceability of a compulsory arbitration clause,[2] and this Court's precedents dealing with that subject are not at issue.

The only question ever raised in this case is whether the ITC has authority to terminate an on-going investigation because of the existence of an arbitration

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[2] Well before the decision in this case by the Federal Circuit, the parties had in fact commenced arbitration proceedings which are now near completion. Of course, the ITC, and thus an appellate court reviewing its decision, is without jurisdiction to order enforcement of an arbitration clause. In any event, at the time of the Federal Circuit decision there remained no dispute about whether arbitration would go forward.

clause or because an arbitration concerning the same issue is going forward.[3] The Federal Circuit decision that it does not have such power is correct. Even if its validity were in doubt, such an isolated question peculiar to a single government agency would not merit review by this Court.

Petitioners thus mischaracterize the decision when they state that it "effectively engrafts onto every arbitration clause governing international commercial transactions an exception for Section 337 proceedings, regardless of the bargain struck by the parties." Petition at 13. In fact, the decision of the Federal Circuit simply does not address the issue whether claims may be ordered to compulsory

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[3] There is nothing incongruous or incompatible about having an ITC section 337 investigation go forward at the same time that an arbitration proceeds concerning some or all of the underlying issues. Indeed, concurrent proceedings appear to be explicitly contemplated by the ITC statute (section 337 violations are to be dealt with as provided therein "in addition to any other provision of law," 19 U.S.C. § 1337(a)(1)), and concurrent ITC and district court proceedings have been explicitly approved. *E.g., Diversified Prods. Corp. v. Weslo Design Int'l, Inc. (In re Convertible Rowing Exerciser Patent Litig.)*, 616 F.Supp. 1134 (D. Del. 1985).

Moreover, the statutory mission of the ITC -- to identify unfair competition in international trade and expeditiously fashion a remedy designed to protect United States domestic industry -- is distinctly different than the contractual assignment of an arbitral panel, which simply sits to resolve the dispute presented by the parties. While it is possible that an arbitration will produce some of the remedies which the ITC might order, other remedies -- such as exclusion, 19 U.S.C. § 1337(d) -- can be ordered only by the Commission. And the statutory constraint on the ITC to proceed quickly to provide relief from any existing unfair practices is, of course, wholly lacking in an arbitration. 19 U.S.C. § 1337(b)(1).

arbitration where they also underlie an on-going unfair trade practice investigation before the ITC. Moreover, the possibility of such concurrent proceedings is wholly consistent with this Court's decisions as they touch on the interaction of arbitration clauses with activities taking place in other fora. Those cases make clear that, while an enforceable arbitration clause will generally result in a stay of any parallel judicial action, no such result follows from the language of the Federal Arbitration Act where the parallel proceeding is before an administrative agency.

In *Mitsubishi* and *Scherk*, the Court was presented with disputes under the antitrust and securities laws, respectively, where parties sought enforcement of an arbitration clause in the context of pending lawsuits brought to litigate the underlying substantive claims. Relying in both cases on the provisions of the Federal Arbitration Act, 9 U.S.C. § 2, establishing the enforceability of agreements to arbitrate in contracts involving commerce -- which the Court found to be of special importance in the context of international agreements, *Mitsubishi*, 473 U.S. at 625; *Scherk*, 417 U.S at 511 -- this Court ordered that arbitration of the matters in dispute go forward.

The language of section 3 of the Arbitration Act further directs that a court presented with a lawsuit whose subject matter is arbitrable shall stay the proceedings in the case in order to allow the arbitration to go forward.[4]

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[4] Section 3 of the Arbitration Act, 9 U.S.C. § 3 (1988), provides, in relevant part, that:

(continued on next page...)

In light of this provision, the Court in both *Mitsubishi* and *Scherk* treated the arbitration clause before it as requiring not only that arbitration be allowed to go forward but that the court action be brought to a halt. 473 U.S. at 628; 417 U.S. at 519.

The language of section 3 of the Arbitration Act does not on its face command that such parallel proceedings before an administrative agency be stayed. This is hardly surprising, since agencies, unlike courts, are not mere neutrals but rather bring to the issues before them a substantive agenda of statutory responsibilities. It would be odd, indeed, if private regulated parties could, as a general matter, waive the jurisdiction of the agencies charged with regulating their conduct. *See A/S Ivarans Rederi v. U.S.*, 895 F.2d 1441, 1445 (D.C. Cir. 1990); *Duke Power Co. v. FERC*, 864 F.2d 823, 829 (D.C. Cir. 1989); *Gulf Oil Corp. v. Federal Power Commission*, 563 F.2d 588, 596 (3d Cir. 1977).[5]

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[4](...continued from previous page)

> If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending . . . shall on application of one of the parties stay the trial of the action until such arbitration has been had . . . .

[5] Under this Court's decision in *Mitsubishi*, administrative agency actions would not necessarily be terminated by virtue of a contractual arbitration clause, even apart from the language of Section 3 of the Arbitration Act limiting its application to the staying of judicial proceedings. For the Court there acknowledged that the contractual intent of the parties to arbitrate may be overridden in its entirety by a "congressional intention expressed in some other statute" to the effect that particular types of matters ought not to be subject to arbitration.

(continued on next page...)

Just last Term, this Court confronted the precise question of the application of arbitration clauses to matters with which an administrative agency may have a statutory concern. In *Gilmer v. Interstate/Johnson Lane Corp.*, 111 S.Ct. 1647 (1991), the Court was faced with the issue of whether arbitration clauses will be enforced with regard to claims under the Age Discrimination in Employment Act. The Court answered that question in the affirmative, but justified its conclusion in part on the ground that such enforcement of arbitration clauses would not "undermine the role of the EEOC in enforcing the ADEA." *Id.* at 1653.

Specifically, the Court noted that "an individual ADEA claimant subject to an arbitration agreement will still be free to file a charge with the EEOC, even though the claimant is not able to institute a private judicial action." 111 S.Ct. at 1653. Moreover, the Court noted, the EEOC is free to receive information from any source and has independent authority to investigate age discrimination and pursue litigation, and may use whatever information is developed as a basis for itself seeking class-wide or equitable relief. *Id.* at 1653, 1655. Thus, in *Gilmer*, the Court found ADEA claims to be arbitrable in part *because* arbitration would not foreclose administrative agency action with regard to the same claim.

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[5](...continued from previous page)
Mitsubishi, 473 U.S. at 627. If such a congressional intention can entirely defeat the parties' intentions under an arbitration clause, clearly there can also be a governing expression of congressional intention not to foreclose arbitration, but simply to allow existing administrative processes to run their course. *See Gilmer v. Interstate/Johnson Lane Corp.*, 111 S.Ct. 1647, 1654 (1991).

In light of that conclusion, the decision below requiring the ITC investigation to proceed is in no way dispositive as to the enforceability of a clause calling for arbitration of the same issues. Accordingly, the first question said to be presented by the Petition is in fact not before the Court.[6]

The second issue offered by petitioner is whether the ITC has authority to terminate a section 337 proceeding, once commenced, short of a determination on the merits, because of an existing contract to arbitrate the underlying dispute. This is, in fact, the issue addressed by the Federal Circuit in its decision. It has no bearing whatsoever on the duty or authority of any other agency in a parallel situation. Moreover, the Federal Circuit's conclusion that (with two explicit statutory exceptions) the ITC is without such discretion rests on a careful parsing of the words of various interrelated provisions of the ITC's organic statute. It is both correct and of insufficient importance to merit review by this Court.

The Federal Circuit noted that the Commission, by statute, is given exclusive authority to investigate allegations that foreign importers are engaging in "unfair methods of competition," and also is required to follow established procedures and strict timetables for the

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[6] The issue of arbitrability of disputes also pending before the ITC can arise not only in the Federal Circuit, but in any circuit where an action to compel arbitration may be brought. *See* 9 U.S.C. § 4 (1988). Thus, should it ever become a recurring issue of significant importance, the need for review by this Court may be manifested by a split in the circuits.

completion of investigations.[7] Pet. App. A10. In pursuing those investigations, it observed, Pet. App. A11, the ITC is obligated to

> consider factors that may or may not interest the parties: the "public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers." 19 U.S.C. § 1337(c)

The court relied for its ruling principally on the mandatory language of 19 U.S.C. § 1337(c). That section requires that the Commission "*shall determine*, with respect to each investigation conducted by it under this section, *whether or not there is a violation*," except that it states that the Commission may terminate without such a determination by issuing a consent order or on the basis of a settlement agreement. Pet. App. A12 (emphasis as in decision below). The court ruled that it would be contrary to traditional canons of statutory interpretation to create an exception in addition to those specified by Congress.[8]

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[7] The Commission is required, under 19 U.S.C. § 1337(b)(1), to "conclude any such investigation, and make its determination under this section, at the earliest practicable time, but not later than one year (18 months in more complicated cases) after the date of publication of notice of such investigation." Pet. App. A112.

[8] The court also held that any such additional exception would be contrary to those already specified by Congress, since in the instances of consent order or settlement, the Commission exercises discretion to terminate or not only after reviewing the resolution proposed by the parties. No such review of the final resolution would be possible under a judicially created exception to section 1337(b)(1) for contractual arbitration agreements. Pet. App. A12.

Pet. App. A13-A14. The court specifically declined to decide whether the Commission may refuse to initiate an investigation -- as opposed to pursue to a determination one already initiated -- on the basis of an existing arbitration agreement between the parties. Pet. App. A13 n. 6.

The court then turned to the contention that the Commission must be able to terminate out of deference to an arbitration agreement because of the provision of section 337(c) that "[a]ll legal and equitable defenses may be presented in all cases." Pet. App. A14. The court rejected the Commission's assertion that this language was intended to further qualify its obligation to determine whether a violation exists. Relying on both the text and the legislative history of the provision, the court rather read it as an assurance that the Commission would consider all such defenses in the determination of substantive violations under the statute.[9]

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[9] The court noted first that no language relating to the "all defenses" provision permits termination of an investigation without first determining whether a violation exists. Pet. App. A15. (It is noteworthy that the "all defenses" language was not inserted as a qualification of the duty to determine whether there is a violation, but rather two sentences later, as a free standing provision. Pet. App. A114.) The court then discussed at some length the legislative history of the 1974 amendment of the statute adding the "all defenses" language, which indicated that the concern was to allow opportunity to raise defenses on the merits to the assertion of a violation, and to assure a "full due process hearing" before the Commission makes a determination. Pet. App. A15-A16.

The court also rejected the claim that its conclusion was somehow inconsistent with its own holding in *Young Eng'rs Inc. v. United States*

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Finally, the Federal Circuit examined the ITC's stated reliance on the broad federal policy favoring arbitration, especially in international transactions, as the ground for terminating its investigation. Pet. App. A17-A22. The court noted the language of section 337(a) commanding that violations, "when found by the Commission to exist shall be dealt with, *in addition to any other provision of law*," Pet. App. A19 (emphasis as in decision below), and found it to evince a clear intent that section 337's protections and procedures cannot be waived by an arbitration agreement. Citing the parallel situation in the *Gilmer* case where enforcement of an arbitration clause did not render inapplicable remedies for the same conduct otherwise available through the EEOC, the court reasoned that the policy favoring arbitration did not provide any basis to terminate the ITC investigation contrary to the terms of the statute. Pet. App. A20-22.

By its thorough analysis of the specific language of section 337, the Federal Circuit has thus correctly ruled that the Commission lacked discretion to terminate its investigation in this case on the ground that the parties had agreed to arbitrate the underlying issues. Even if that were in doubt, review by this Court would be inappropriate. The narrow question of ITC termination authority, standing alone, where Congress is fully capable

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[9](...continued from previous page)
International Trade Comm'n, 721 F.2d 1305 (Fed. Cir. 1983), that the ITC could properly consider the *res judicata* effect of a judicial determination. The court noted that the *Young Eng'rs* holding did not excuse the ITC from reaching a final determination on the existence of violations. Pet. App. A17.

of altering the conclusion reached by the Federal Circuit, does not merit this Court's attention.[10]

CONCLUSION

For the reasons set forth above, the petition for certiorari should be denied.

Respectfully submitted,

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April 13, 1992

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[10] Even if that issue could ever justify plenary review, it would not be now, after its first resolution at the appellate level. There is, of course, no inter-circuit conflict, nor can there be, since appeals of ITC decisions are all directed to the Federal Circuit. 19 U.S.C. § 1337(c); 28 U.S.C. § 1295(a)(6) (1988). To the extent that the issue has any continuing importance, however, it will be presented again to that court, where it may be illuminated by further analysis.

(3)

No. 91-1501

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In the Supreme Court of the United States

OCTOBER TERM, 1991

POMINI FARREL S.p.A. AND POMINI, INC.,
PETITIONERS

v.

FARREL CORPORATION AND
UNITED STATES INTERNATIONAL TRADE COMMISSION

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES INTERNATIONAL TRADE COMMISSION IN OPPOSITION

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QUESTION PRESENTED

Whether the United States International Trade Commission may terminate a proceeding under 19 U.S.C. 1337 on the basis of a private arbitration agreement between the parties to the proceeding.

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JURISDICTION

The judgment of the court of appeals was entered on November 22, 1991. A petition for rehearing was denied on January 23, 1992. Pet. App. A105-A106. The petition for a writ of certiorari was filed on

March 16, 1992. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. Respondent Farrel Corporation manufactures and distributes machinery used in mixing rubber and plastics. Petitioner Pomini S.p.A. is an Italian corporation that also sells rubber and plastics mixing machinery. Between 1957 and 1986, Farrel and Pomini entered into a series of licensing agreements that authorized Pomini to use Farrel's technology to manufacture a line of mixing machines and to sell those machines throughout the world except in the United States, the United Kingdom, and Japan. The agreements contained an arbitration clause providing that "[a]ll disputes arising in connection with the present Agreement shall be finally settled by arbitration * * * in accordance with the rules of [a]rbitration of the International Chamber of Commerce." Pet. App. A2-A3.

On January 1, 1986, Farrel exercised its right to terminate the licensing agreement with Pomini. About seven months later, Pomini announced that it would begin selling mixing devices and components in the United States through a newly-formed American marketing subsidiary, petitioner Pomini, Inc. Farrel alleges that petitioners have infringed Farrel's patents and trademarks and misappropriated its trade secrets, and that as a result Farrel has lost significant business to petitioners. Pet. App. A3-A4.

2. On June 29, 1988, Farrel filed suit in the United States District Court for the Northern District of Ohio, alleging that petitioners had committed patent and trademark violations. Farrel sought injunctive relief and treble and punitive damages. Pet. App. A4-A5. Petitioners filed a motion to stay the

action and to compel arbitration under the parties' licensing agreement. On September 10, 1990, the district court granted the motion to stay the proceedings on the basis of the arbitration provisions of the licensing agreement. Pet. App. A5, A61-A104.

Farrel also brought suit against Pomini in the Tribunal of Busto Arsizio (an Italian civil court) and in the Scottish Court of Sessions. In both actions, Farrel alleged that Pomini had misappropriated trade secrets and infringed patents and trademarks. Pomini raised the arbitration provisions of the licensing agreement as a defense in both actions. Farrel subsequently dismissed the action in Scotland. Pet. App. A4 & n.1.

3. On July 24, 1990, Farrel filed a complaint with the United States International Trade Commission (Commission) alleging that petitioners had violated Section 337 of the Tariff Act of 1930, 19 U.S.C. 1337.[1] Farrel alleged that petitioners had misappropriated trade secrets, infringed trademarks, and falsely represented the source of the equipment. Farrel sought an immediate cease-and-desist order and a limited permanent order prohibiting entry into the United States of petitioners' internal mixing devices. Pet. App. A5-A6.

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[1] Section 337 provides, in part, that it is unlawful to engage in "[u]nfair methods of competition and unfair acts in the importation of articles * * * or in the sale of such articles," where the "threat or effect" of the activity is "to destroy or substantially injure an industry in the United States; to prevent the establishment of such an industry; or to restrain or monopolize trade and commerce in the United States." 19 U.S.C. 1337(a)(1)(A). In addition, Section 337 provides that it is unlawful to import, sell for importation, or sell after importation articles that infringe a valid United States patent, copyright, or trademark. 19 U.S.C. 1337(a)(1)(B) and (C).

On August 21, 1990, the Commission instituted an investigation of Farrel's complaint. Petitioners filed a motion for summary determination contending, among other things, that the Commission should terminate its investigation on the basis of the arbitration provisions of the licensing agreement. Pet. App. A6.

On October 3, 1990, an administrative law judge issued an initial determination terminating the investigation on the basis of the arbitration agreement. On November 2, 1990, the Commission affirmed the ALJ's initial determination that the investigation should be terminated.[2] Pet. App. A24-A58. The Commission, relying on this Court's decision in *Mitsubishi Motors Corp.* v. *Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 628 (1985), and the Commission's decision in *Certain Fluidized Bed Combustion Systems*, Inv. No. 337-TA-213, USITC Pub. 1752 (Sept. 1985), concluded that "a party to an international transaction will be required to honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims." Pet. App. A32-A33. The Commission concluded that the arbitration agreement in this case should be given effect because the "claim[] of * * * misappropriation of trade secret[] * * * [is] 'inextricably connected to the license agreement' " and there are no legal constraints external to the agreement that foreclose arbitration. Pet. App.

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[2] Before the Commission, Farrel did not challenge termination of the investigation of its trademark and false representation of source claims. Thus, the Commission considered only Farrel's claim that petitioners had misappropriated trade secrets. Pet. App. A7 n.3.

A33-A34. The Commission stated that the policy considerations that caused it to decline to initiate a Section 337 proceeding in *Fluidized Beds*—"concern for international comity, respect for capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial system for * * * predictability in the resolution of disputes," Pet. App. A35—applied in this case and supported termination of the investigation.

The Commission rejected Farrel's contention that it will be unable to vindicate its rights under Section 337 in the arbitral forum. The Commission noted that, under the arbitration rules of the International Chamber of Commerce, Farrel is permitted to file a petition in federal district court seeking a preliminary order immediately halting petitioners' imports. Pet. App. A36-A37. The Commission also concluded that principles of collateral estoppel applied to the district court's decision, Pet. App. A38-A50, that Farrel did not retain an "implied right" to bring a Section 337 proceeding under the terms of the arbitration agreement, Pet. App. A50-A52, that the Commission's *Fluidized Beds* decision should not be overruled, Pet. App. A52-A53, and that the Commission should not "self-initiate" an investigation into petitioners' alleged violations, Pet. App. A53-A55.

Commissioner Rohr dissented. Pet. App. A56-A58. He noted that Section 337 provides that a violation "shall be dealt with, in addition to any other provision of law." Pet. App. A57 (quoting 19 U.S.C. 1337(a)(1)). The dissenting Commissioner observed that the Commission has conducted investigations while district court actions were pending. In his view, the decision to terminate the investigation in this case "giv[es] greater deference to an arbitral tribunal than it [does] to a U.S. District Court."

Pet. App. A57. The dissenting Commissioner also concluded that arbitration would not vindicate Farrel's rights under Section 337 because the "timing of relief to complainant through arbitration will likely only be available * * * far beyond the strictly enforced time limitations of section 337." Pet. App. A58.

4. The court of appeals reversed and remanded to the Commission. Pet. App. A1-A23. The court held that "the Commission erred by relying on the broad federal policy favoring arbitration as a ground to terminate an ongoing section 337 investigation in circumstances where the statute enumerates only two limited and specific circumstances for terminations concededly not present in this case." Pet. App. A22. The court noted that Section 337(b)(1) provides that the Commission "shall investigate any alleged violation of this section on complaint under oath or upon its initiative." In addition, Section 337(c) provides that "[t]he Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of a settlement agreement, terminate any such investigation, in whole or in part, without making such a determination." 19 U.S.C. 1337(c). The court concluded that the mandatory language of the statute requires that, once the Commission initiates an investigation, it must determine whether there has been a violation of the statute unless there is a consent order or settlement agreement. Here, the court noted, there is no contention that the arbitration agreement can be characterized as a consent order or a settlement agreement. Pet. App. A13. Accordingly, the court held that the Commission acted contrary to law in terminating the

investigation without determining whether there was a violation of Section 337.[3] Pet. App. A14.

The court of appeals recognized (Pet. App. A14) that the statute provides that "[a]ll legal and equitable defenses may be presented in all cases," 19 U.S.C. 1337(c), and agreed with the Commission that an arbitration agreement may be considered an equitable defense in certain circumstances. But the court held that the Commission cannot rely on an arbitration agreement as a basis for making no "determination whatsoever." Pet. App. A15.

The court of appeals concluded that this Court's decision in *Mitsubishi* does not support the Commission's decision to terminate the investigation. In the court's view, *Mitsubishi* rested "in large part on the Federal Arbitration Act," 9 U.S.C. 1 *et seq.*, a statute that does not apply to the Commission. Pet. App. A18. Even if "the strong preference for enforcement of arbitration agreements" applies in this case, the court said, that preference is overcome by the mandatory language of the statute. The court noted that in *Gilmer* v. *Interstate/Johnson Lane Corp.*, 111 S. Ct. 1647 (1991), this Court recognized that an arbitration agreement does not waive the parties' right of access to an administrative, as opposed to a judi-

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[3] The court expressly declined to decide whether the Commission may terminate an investigation without determining whether the statute was violated in other circumstances, such as where the complaint is withdrawn or the issue becomes moot. Pet. App. A11-A12 n.5. The court also declined to address whether the Commission may decline to initiate an investigation on the basis of an arbitration agreement. *Id.* at A13 n.6. In addition, the court said that "it appears quite possible that, in exercising its broad discretionary powers to fashion an appropriate remedy, the Commission can consider remedies ordered by an arbitral forum." *Id.* at A16 n.8.

cial, forum where the agency has independent authority to investigate statutory violations. Pet. App. A20-A22.

On March 25, 1992, the Commission voted to reinstitute its investigation in this case.

ARGUMENT

1. Before the court of appeals, the Commission took the position that the existence of a private arbitration agreement may be asserted as an equitable defense in a proceeding under Section 337. The Commission contended that it has authority to terminate an investigation under Section 337 without determining whether the statute has been violated if it concludes that termination on the basis of a private arbitration agreement between the parties is in the public interest.

Although the court of appeals did not accept the Commission's position, the Commission believes that the petition for a writ of certiorari should be denied. Contrary to petitioners' assertion (Pet. 14), the question whether the Commission should defer to a private arbitration agreement between the parties in a proceeding brought under Section 337 is not sufficiently important to require this Court's attention at the present, interlocutory stage of this case.

First, the question has not proved to be a recurring one. It is rare for the complainant and respondent in a Section 337 proceeding to have engaged in a close business relationship involving the exchange of technology and an agreement to arbitrate all disputes. Indeed, the question presented in this case appears to have arisen only twice—in this case and in the *Fluidized Bed* case—over a period of at least six years. Thus, the court of appeals' decision is unlikely to affect a large number of cases.

Second, the court of appeals' decision rests on the precise language of Section 337. Consequently, the decision is unlikely to affect the status of international arbitration agreements under other federal statutes administered by other federal agencies.

Third, the case has been remanded to the Commission for further proceedings. Review by this Court would be premature because the court of appeals expressly declined to address several closely related questions concerning the Commission's authority to give effect to private arbitration agreements. For example, the court of appeals recognized, without elaboration, that "an arbitration agreement may be considered an equitable defense in certain circumstances." Pet. App. A14. And the court stated that "it appears quite possible that, in exercising its broad discretionary powers to fashion an appropriate remedy, the Commission can consider remedies ordered by an arbitral forum." *Id.* at A16 n.8. There is no occasion for this Court to grant review until the Commission has had an opportunity on remand to consider these unresolved issues and its further determinations have been reviewed by the court of appeals.

In addition, the court of appeals expressly declined to rule on other closely related questions. Although these questions will not be directly at issue in the proceedings on remand, they may further reduce the importance of the court of appeals' decision. For example, the court of appeals declined to decide whether the Commission may refuse to initiate an investigation on the basis of the existence of an arbitration agreement. Pet. App. A13 n.6. Moreover, the court recognized (*id.* at A11-A12 n.5) that, in addition to the circumstances specified in the statute (a settlement agreement or consent order), "[o]ther situations could arise where a section 337 investigation

may be terminated without a conclusive determination." The court declined to specify what those situations might be. These questions, which may be considered in subsequent cases, may substantially limit the practical significance of the court of appeals' decision in this case.

2. In urging this Court to grant certiorari and reinstate the Commission's determination, petitioners advance several arguments that the Commission has not accepted.

First, petitioners contend (Pet. 14-20) that the court of appeals' decision is contrary to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, T.I.A.S. No. 6997 (*entered into force* Dec. 29, 1970) (New York Convention) and the Federal Arbitration Act (FAA), 9 U.S.C. 1 *et seq.* But the New York Convention, as implemented by Chapter 2 of the FAA, 9 U.S.C. 201, applies only to "actions" in "courts." Article II(3) of the New York Convention provides that the "court of a Contracting State" must refer "actions" to arbitration at a party's request pursuant to a valid arbitration agreement. 21 U.S.T. 2519. Because the Commission is not a "court," it has not taken the position that the New York Convention and the FAA require termination of a Section 337 proceeding on the basis of a private arbitration agreement between the parties.

Second, the Commission has not taken the position that this Court's decision in *Mitsubishi Motors Corp.* v. *Soler Chrysler Plymouth, Inc.*, 473 U.S. 614 (1985), requires the Commission to honor "the parties' choice of arbitration as the agreed-upon forum" (Pet. 18-19) in all circumstances. To be sure, *Mitsubishi Motors* recognized the strong federal policy in favor of enforcing international arbitration agree-

ments. The Commission concluded (Pet. App. A32-A38) that this policy supports termination of a Section 337 proceeding on the basis of a private arbitration agreement, but only if the Commission concludes that termination is in the public interest.

Contrary to petitioners' arguments (Pet. 15, 17), the Commission has never viewed *Mitsubishi Motors* as *requiring* termination of Section 337 proceedings in every case in which the parties have entered into an arbitration agreement. Pet. App. A38. *Mitsubishi Motors* must be considered together with the Court's more recent decision in *Gilmer* v. *Interstate/Johnson Lane Corp.*, 111 S.Ct. 1647, 1653 (1991). In *Gilmer*, the Court affirmed a decision enforcing an agreement to arbitrate any controversy arising out of the termination of employment. The Court held that the FAA precluded Gilmer from asserting claims under the Age Discrimination in Employment Act, 29 U.S.C. 621 *et seq.*, in a judicial forum. But the Court observed that Gilmer's agreement to arbitrate any controversy arising out of the termination of his employment did not preclude him from filing a charge before the Equal Employment Opportunity Commission (EEOC). 111 S.Ct. at 1653. Although the policies at issue in civil rights cases before the EEOC may be quite different from the policies at issue in international commercial cases before the Commission, both the Commission and the EEOC have independent authority to investigate possible statutory violations without a request from the parties. Indeed, petitioners concede (Pet. 19 n.8) that a private arbitration agreement would not "preclude the [Commission] from 'self-initiating' an investigation." Thus, *Gilmer* refutes any suggestion that the Commission is required to terminate pro-

ceedings under Section 337 merely because the parties have entered into a private arbitration agreement.[4]

Finally, the Commission has not accepted petitioners' contention (Pet. 15-16) that termination of the Section 337 proceeding was required by the 1951 Agreement Supplementing the Treaty of Friendship, Sept. 26, 1951, U.S.-Italy, 12 U.S.T. 131, T.I.A.S. No. 4685. That Treaty states that arbitration clauses in agreements between nationals of the United States and Italy will not be deemed unenforceable based "merely on the grounds that the place designated for the arbitration proceedings is outside such territories, or that the nationality of one or more of the arbitrators is not that of such other party." The Treaty does not control the outcome of this case for the simple reason that neither the court of appeals' decision nor the Commission's weighing of the public interest rests on the location of the arbitration or the nationality of the arbitrators. See Pet. App. A12-A14, A20-A22.

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[4] For the same reason, this Court's decision in *The Bremen* v. *Zapata Off-Shore Co.*, 407 U.S. 1 (1972), enforcing a forum-selection clause, does not support the proposition that private parties can enter into an agreement that divests the Commission of jurisdiction to investigate a violation of Section 337.

CONCLUSION

The petition for writ of certiorari should be denied.

Respectfully submitted.

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Supreme Court of the United States
OCTOBER TERM, 1991

POMINI FARREL S.p.A. and POMINI, INC.,
Petitioners,

v.

FARREL CORPORATION and
UNITED STATES INTERNATIONAL TRADE COMMISSION

On Petition For A Writ of Certiorari To The United States Court of Appeals For the Federal Circuit

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REPLY BRIEF FOR PETITIONERS

The petition in this case poses momentous questions relating to the enforceability of international commercial agreements that designate arbitration as the sole forum for resolving disputes between the parties. The prevalence of such arbitration provisions magnifies the impact of these issues for all participants in international trade. In opposition, each respondent in its own way recasts the record in this case inaccurately in order to diminish the significance of the questions presented. When the record is viewed accurately -- to reflect the issues actually decided by the International Trade Commission ("ITC") and reversed by the court of appeals -- the importance of the questions presented and the need for this Court's immediate review remain clear.

The briefs in opposition go to great lengths to avoid the key issues in the case. For example, respondent Farrel has no answer to the plain inconsistency between the decision below and the legal imperatives of the multilateral treaty in which the United States obligated itself to recognize arbitration agreements in international transactions. The New York Convention provides that "[e]ach Contracting State shall recognize" arbitration agreements. Lacking any response, Farrel simply ignores the treaty.

As a further example, the ITC's brief offers no support for the decision below. Instead, the ITC seeks to minimize the importance of the Federal Circuit's opinion by suggesting that parties to arbitration agreements rarely commence proceedings before the ITC. ITC Br. in Opp. 8. But, until the decision of the court of appeals in this case upset well-established and longstanding principles, the ITC consistently honored and enforced litigants' agreements to arbitrate disputes. The ITC firmly established that principle in *In re Certain Fluidized Bed Combustion Systems*, Inv. No. 337-TA-213, USITC Pub. 1752 (Sept. 1985), by faithfully applying the teachings of this Court in *Mitsubishi*. For the ITC now to say that parties to arbitration agreements have rarely come before the Commission since *Fluidized Bed* is simply to acknowledge that the law on this issue was firmly settled. Unless this Court grants review and reverses the decision below, the law in this critical area of international trade will be settled no longer.

Similarly unavailing is the ITC's suggestion that this Court's review should await the conclusion of the newly-resumed Commission proceedings on remand. ITC Br. in Opp. 9. In fact, the central focus of the petition is

whether the ITC should conduct any proceedings at all in this case. The resumption of proceedings violates the very rights under the arbitration agreement and under international treaties that Pomini seeks to vindicate. Just as in the context of double jeopardy claims and claims of immunity from trial, the deprivation of a right not to be subjected to a particular proceeding cannot be cured by *post hoc* review.

Accordingly, this Court's review is warranted at this time to rectify the Federal Circuit's departure from the principles set forth in *Mitsubishi*, principles that have signal importance in international commercial transactions and that will be adversely affected to an extraordinary extent because of the Federal Circuit's unique jurisdiction in international trade.

I. THIS CASE DOES NOT IMPLICATE A "WAIVER" OF THE ITC'S JURISDICTION

Both respondents mistakenly suggest that enforcement of the parties' selection of arbitration as the sole forum for resolving disputes is tantamount to a "waiver" that "divests" the ITC of all jurisdiction. *See* Farrel Br. in Opp. 7; ITC Br. in Opp. 11-12 & n. 4. These contentions ignore the fact that Farrel specifically requested the ITC to "self-initiate an investigation" in order to protect "the public interests." Pet. App. A53. The ITC expressly declined that request "because of policy considerations" (although noting that it possessed "authority to institute an investigation on its own initiative"). *Id.* at A54, *quoting Fluidized Bed*, USITC Pub. 1752 at 10-11. Petitioners do not challenge the ITC's authority (or jurisdiction) to conduct proceedings under Section 337 on its own initiative where, in its view, the public interest warrants.

In such circumstances, both arbitration proceedings and agency proceedings may go forward just as described in this Court's dictum in *Gilmer v. Interstate/Johnson Lane Corp.*, 111 S. Ct. 1647 (1991).

But that situation does not exist here. Because the ITC has already determined that the public interest does not warrant proceedings on Farrel's allegations, the decision of the court of appeals requires agency resolution of "essentially private rights." *See Young Engineers, Inc. v. USITC*, 721 F.2d 1305, 1315 (Fed. Cir. 1983); *see also* Pet. 19 & n. 8. The decision below holds that those private rights must be adjudicated by the ITC despite the parties' agreement to resolve all disputes in arbitration. The schism could not be clearer between the judgment below and the national policy favoring arbitration, a policy to which the United States has committed itself by treaty and statute and which this Court has consistently upheld.

II. TREATY OBLIGATIONS REQUIRE THE U.S. TO HONOR INTERNATIONAL ARBITRATION AND FORUM SELECTION PROVISIONS

Respondent Farrel's principal contention in opposition to the petition is that the pendency of arbitration proceedings necessarily excises from the case any issue of enforceability of the compulsory arbitration provision. Farrel Br. in Opp. 4 & n. 2. That contention fundamentally misperceives the nature of an agreement to arbitrate. This Court's decisions make clear that a compulsory arbitration provision constitutes the selection of a particular forum and mode for dispute resolution. When one of the parties subsequently resorts to a forum not specified in the agreement the other party is deprived of its contractual rights. This is so whether the

noncontractual forum is invoked **in addition to** arbitration or **instead of** arbitration. In either event, the contractual selection of arbitration as the sole means of dispute resolution has been dishonored.

For this reason, it was of no consequence in *The Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 4 (1972), that litigation was pending in the forum specified in the contract; when one party instituted additional proceedings in another jurisdiction, this Court held that the contractual choice-of-forum provision required that such additional proceedings cease. In *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 630-31 (1985), the pendency of arbitration proceedings in Japan -- as specified in the contract -- did not deter this Court from holding that the commencement of additional litigation in the United States violated the agreement between the parties.

The circumstances of this case make the need for review even more pressing. Arbitration hearings in Geneva, Switzerland have concluded and the matter is pending before the arbitrators for decision. In the meantime, proceedings before the ITC have resumed. Unless this Court grants the petition and reverses the decision below, the ITC will be required to conduct redundant proceedings, in violation of United States treaty obligations and in violation of the contractual rights of the parties.

III. THE ITC DOES NOT LACK AUTHORITY TO CONSIDER MERITORIOUS DEFENSES

Both respondents attempt to obscure the importance of this case by pointing out that the court of appeals

"declined to decide whether the Commission may refuse to initiate an investigation on the basis of the existence of an arbitration agreement." ITC Br. in Opp. 9; *see* Farrel Br. in Opp. 11; Pet. App. A13 n. 6. The suggestion is that the ITC could avoid the absurd result in this case by terminating proceedings at an even earlier point, *viz.*, prior to commencing an investigation.

Under the decision of the court of appeals, this safety valve is illusory. The stated basis for the decision below is that the ITC lacks authority to terminate an investigation because Section 337(c) provides that "[t]he Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section . . . ." 19 U.S.C. § 1337(c). In the court's view, the statutory imperative "shall" precludes the ITC from considering Pomini's equitable defense of arbitration until after a determination is reached on the merits. If that is so, then the Commission similarly would have no discretion in deciding whether to commence an investigation in the first place, since Section 337(b)(1) provides that "[t]he Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative." 19 U.S.C. § 1337(b)(1).

Where Congress employed the same imperative ("shall") in both subsections of the statute, it must be presumed that the word has the same meaning in each iteration. Under the decision below, therefore, the filing of a complaint automatically obliges the ITC to investigate, to conduct proceedings "on the record after notice and opportunity for a hearing" subject to judicial review, and to determine whether a violation has occurred. 19 U.S.C. 1337(b)(1) and (c). Under the decision below,

all of this is mandatory no matter how insubstantial, frivolous or deficient the complaint and without regard to the existence of valid defenses. In short, the resources of the ITC would be entirely at the mercy and whim of complainants.

The irony and injustice of this reading of the statute is evident in the record of this case. As the opinions of the ITC and the court of appeals make clear, Pomini did raise its arbitration defense **before** the ITC initiated an investigation. *See* Pet. App. A27 ("Institution of an investigation was objected to by [Pomini] on the basis of arbitration clauses contained in licensing agreements between the parties"); *id.* at A6 ("Although the Commission was informed of the pending district court action and Pomini's Motion To Compel Arbitration, the Commission decided to institute an investigation based on Farrel's allegations and did not reach the arbitrability issue, because that question was, according to the ITC investigating attorney, 'not presently before the Commission'"). In short, the court of appeals has created a trap for the unwary and then sprung that trap on Pomini, a party that took all appropriate steps to present, preserve and protect its contractual right to arbitration as the sole forum for dispute resolution. In these circumstances, the decision below not only erects a continuing bar to enforcement of arbitration agreements in international commercial transactions, but imposes a particular injustice on Pomini that will not be rectified unless the judgment of the court of appeals is reversed.

CONCLUSION

It is therefore respectfully submitted that the petition for a writ of certiorari should be granted.

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